

FLOWERS FOODS INC  
Form 10-Q  
May 24, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended April 21, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-16247

**FLOWERS FOODS, INC.**

(Exact name of registrant as specified in its charter)

GEORGIA  
(State or other jurisdiction)

58-2582379  
(I.R.S. Employer Identification

of incorporation or organization)

Number)

1919 FLOWERS CIRCLE, THOMASVILLE, GEORGIA

(Address of principal executive offices)

31757

(Zip Code)

229/226-9110

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

| TITLE OF EACH CLASS                  | OUTSTANDING AT MAY 18, 2012 |
|--------------------------------------|-----------------------------|
| Common Stock, \$.01 stated par value | 135,905,569                 |

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**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, 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, independent distributors and third party service providers; and (vi) laws and regulations (including environmental and health-related issues), accounting standards or tax rates in the markets in which we operate;

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

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

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

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

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

our ability to implement new technology and customer requirements as required;

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

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

consolidation within the baking industry and related industries;

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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; and

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

The foregoing list of important factors does not include all such factors, nor necessarily present them in order of importance. In addition, you should consult other disclosures made by the company (such as in our other filings with the Securities and Exchange Commission ( SEC ) or in company press releases) for other factors that may cause actual results to differ materially from those projected by the company. Please refer to Part I, Item 1A., *Risk Factors*, of the company's Form 10-K filed on February 29, 2012 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 Form 10-Q are listed without the ®, ® and symbols, but we will assert, to the fullest extent under applicable law, our rights to our copyrights, trademarks and trade names.

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

(Amounts in thousands, except share data)

(Unaudited)

|   | APRIL 21, 2012      | DECEMBER 31, 2011   |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| Current Assets:   |                     |                     |
| Cash and cash equivalents   | \$ 186,147          | \$ 7,783            |
| Accounts and notes receivable, net of allowances of \$477 and \$171, respectively                       | 200,851             | 185,603             |
| Inventories, net:   |                     |                     |
| Raw materials   | 27,753              | 26,626              |
| Packaging materials   | 16,240              | 15,820              |
| Finished goods  | 35,728              | 31,650              |
|   | 79,721              | 74,096              |
| Spare parts and supplies  | 41,044              | 39,624              |
| Deferred taxes  | 33,137              | 36,264              |
| Other   | 21,751              | 35,200              |
| <b>Total current assets</b>   | <b>562,651</b>      | <b>378,570</b>      |
| Property, Plant and Equipment, net of accumulated depreciation of \$760,217 and \$735,629, respectively | 676,835             | 685,487             |
| Notes Receivable  | 101,823             | 102,322             |
| Assets Held for Sale Distributor Routes   | 13,989              | 12,726              |
| Other Assets  | 16,129              | 13,932              |
| Goodwill  | 219,730             | 219,730             |
| Other Intangible Assets, net  | 138,724             | 141,231             |
| <b>Total assets</b>   | <b>\$ 1,729,881</b> | <b>\$ 1,553,998</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                     |                     |
| Current Liabilities:  |                     |                     |
| Current maturities of long-term debt  | \$ 53,571           | \$ 42,768           |
| Accounts payable  | 115,434             | 115,138             |
| Other accrued liabilities   | 109,169             | 110,513             |
| <b>Total current liabilities</b>  | <b>278,174</b>      | <b>268,419</b>      |

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|   |              |              |
|---|--------------|--------------|
| Long-Term Debt and Capital Leases   | 43,955       | 283,406      |
| 4.375% senior notes due 2022  | 399,045      |              |
| Total long-term debt  | 443,000      | 283,406      |
| Other Liabilities:  |              |              |
| Post-retirement/post-employment obligations   | 141,921      | 155,263      |
| Deferred taxes  | 35,419       | 35,375       |
| Other   | 49,730       | 52,567       |
| Total other liabilities   | 227,070      | 243,205      |
| 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, 152,488,088 shares and 152,488,008 shares issued, respectively | 199          | 199          |
| Treasury stock 16,582,439 shares and 16,506,822 shares, respectively  | (222,653)    | (221,246)    |
| Capital in excess of par value  | 546,650      | 544,065      |
| Retained earnings   | 565,604      | 547,997      |
| Accumulated other comprehensive loss  | (108,163)    | (112,047)    |
| Total stockholders' equity  | 781,637      | 758,968      |
| Total liabilities and stockholders' equity  | \$ 1,729,881 | \$ 1,553,998 |

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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

(Amounts in thousands, except per share data)

(Unaudited)

|   | <b>FOR THE SIXTEEN WEEKS ENDED</b> |                       |
|---|------------------------------------|-----------------------|
|   | <b>APRIL 21, 2012</b>              | <b>APRIL 23, 2011</b> |
| Sales   | \$ 898,206                         | \$ 801,825            |
| Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below) | 478,978                            | 412,258               |
| Selling, distribution and administrative expenses   | 330,272                            | 300,057               |
| Depreciation and amortization   | 29,739                             | 27,992                |
| Income from operations  | 59,217                             | 61,518                |
| Interest expense  | (4,229)                            | (2,149)               |
| Interest income   | 4,205                              | 3,911                 |
| Income before income taxes  | 59,193                             | 63,280                |
| Income tax expense  | 21,250                             | 22,119                |
| Net income  | \$ 37,943                          | \$ 41,161             |
| <b>Net Income Per Common Share:</b>   |                                    |                       |
| <b>Basic:</b>   |                                    |                       |
| Net income per common share   | \$ 0.28                            | \$ 0.30               |
| Weighted average shares outstanding   | 135,496                            | 135,321               |
| <b>Diluted:</b>   |                                    |                       |
| Net income per common share   | \$ 0.28                            | \$ 0.30               |
| Weighted average shares outstanding   | 137,182                            | 136,481               |
| Cash dividends paid per common share  | \$ 0.150                           | \$ 0.133              |

(See Accompanying Notes to Condensed Consolidated Financial Statements)



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

|  | <b>FOR THE SIXTEEN WEEKS ENDED</b> |                       |
|--|------------------------------------|-----------------------|
|  | <b>APRIL</b>                       |                       |
|  | <b>21, 2012</b>                    | <b>APRIL 23, 2011</b> |
| Net income   | \$ 37,943                          | \$ 41,161             |
| Other comprehensive income, net of tax:                            |                                    |                       |
| Pension and postretirement plans:                                  |                                    |                       |
| Amortization of prior service (credit) cost included in net income | (49)                               | (49)                  |
| Amortization of actuarial loss included in net income              | 906                                | 507                   |
| Pension and postretirement plans, net of tax                       | 857                                | 458                   |
| Derivative instruments:  |                                    |                       |
| Net derivatives (loss) gain for the period                         | (7,009)                            | 8,492                 |
| Loss (Gain) reclassified to net income                             | 10,036                             | (13,295)              |
| Derivative instruments, net of tax                                 | 3,027                              | (4,803)               |
| Other comprehensive income, net of tax                             | 3,884                              | (4,345)               |
| Comprehensive income   | \$ 41,827                          | \$ 36,816             |

(See Accompanying Notes to Condensed Consolidated Financial Statements)

**Table of Contents****FLOWERS FOODS, INC.****CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

(Amounts in thousands, except share data)

(Unaudited)

|  | Common Stock                  |              | Capital                         | Retained   | Accumulated                                | Treasury Stock            | Total      |
|--|-------------------------------|--------------|---------------------------------|------------|--|---------------------------|------------|
|  | Number of<br>shares<br>issued | Par<br>Value | in<br>Excess<br>of Par<br>Value |            | Other<br>Comprehensive<br>Income<br>(Loss) |                           |            |
| Balances at December 31, 2011  | 152,488,008                   | \$ 199       | \$ 544,065                      | \$ 547,997 | \$ (112,047)                               | (16,506,822) \$ (221,246) | \$ 758,968 |
| Net income   |                               |              |                                 | 37,943     |  |                           | 37,943     |
| Derivative instruments, net of tax   |                               |              |                                 |            | 3,027                                      |                           | 3,027      |
| Pension and postretirement plans, net of tax                                 |                               |              |                                 |            | 857  |                           | 857        |
| Exercise of stock options  |                               |              | (14)                            |            |  | 18,413 247                | 233        |
| Deferred stock issuance  |                               |              | (271)                           |            |  | 20,205 271                |            |
| Amortization of share-based payment awards                                   |                               |              | 2,640                           |            |  |                           | 2,640      |
| Tax benefits related to share-based payment awards                           |                               |              | (107)                           |            |  |                           | (107)      |
| Performance-contingent restricted stock awards forfeitures and cancellations |                               |              | 605                             |            |  | (45,140) (605)            |            |
| Stock repurchases  |                               |              |                                 |            |  | (70,742) (1,354)          | (1,354)    |
| Issuance of deferred compensation  |                               |              | (34)                            |            |  | 1,647 34                  |            |
| Dividends paid on vested performance-contingent restricted stock awards      |                               |              | (234)                           |            |  |                           | (234)      |
| Dividends paid \$0.150 per common share                                      |                               |              |                                 | (20,336)   |  |                           | (20,336)   |
| Balances at April 21, 2012   | 152,488,008                   | \$ 199       | \$ 546,650                      | \$ 565,604 | \$ (108,163)                               | (16,582,439) \$ (222,653) | \$ 781,637 |

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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

(Amounts in thousands)

(Unaudited)

|  | <b>FOR THE SIXTEEN WEEKS ENDED</b> |                       |
|--|------------------------------------|-----------------------|
|  | <b>APRIL 21, 2012</b>              | <b>APRIL 23, 2011</b> |
| <b>CASH FLOWS PROVIDED BY (DISBURSED FOR) OPERATING ACTIVITIES:</b>                |                                    |                       |
| Net income   | \$ 37,943                          | \$ 41,161             |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                                    |                       |
| Stock-based compensation   | 3,064                              | 5,929                 |
| Loss (Gain) reclassified from accumulated other comprehensive income to net income | 15,360                             | (22,919)              |
| Depreciation and amortization  | 29,739                             | 27,992                |
| Deferred income taxes  | 573                                | (3,268)               |
| Provision for inventory obsolescence   | 413                                | 410                   |
| Allowances for accounts receivable   | 660                                | 270                   |
| Pension and postretirement plans expense   | 483                                | 194                   |
| Other  | (500)                              | (644)                 |
| Pension contributions  | (12,055)                           | (580)                 |
| Changes in operating assets and liabilities:                                       |                                    |                       |
| Accounts and notes receivable, net   | (15,819)                           | (10,597)              |
| Inventories, net   | (6,038)                            | (6,439)               |
| Hedging activities, net  | (6,483)                            | 10,876                |
| Other assets   | 14,356                             | 7,391                 |
| Accounts payable   | 296                                | 19,863                |
| Other accrued liabilities  | (1,879)                            | 2,915                 |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                   | <b>60,113</b>                      | <b>72,554</b>         |
| <b>CASH FLOWS (DISBURSED FOR) INVESTING ACTIVITIES:</b>                            |                                    |                       |
| Purchase of property, plant and equipment  | (14,288)                           | (22,058)              |
| Proceeds from sale of property, plant and equipment                                | 470                                | 732                   |
| Repurchase of distributor territories  | (4,388)                            | (3,477)               |
| Principal payments from notes receivable   | 4,799                              | 3,829                 |
| Contingent acquisition consideration payments                                      |                                    | (5,000)               |
| <b>NET CASH DISBURSED FOR INVESTING ACTIVITIES</b>                                 | <b>(13,407)</b>                    | <b>(25,974)</b>       |
| <b>CASH FLOWS PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES:</b>                |                                    |                       |
| Dividends paid   | (20,570)                           | (18,078)              |
| Exercise of stock options  | 233                                | 1,007                 |
| Excess windfall tax benefit related to share-based payment awards                  | 60                                 | 577                   |
| Payments for debt issuance costs   | (3,766)                            |                       |
| Stock repurchases  | (1,354)                            | (18,029)              |
| Change in bank overdraft   | (9,064)                            | (2,604)               |
| Proceeds from debt borrowings  | 731,340                            | 93,500                |
| Debt and capital lease obligation payments   | (565,221)                          | (101,041)             |
| <b>NET CASH PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES</b>                   | <b>131,658</b>                     | <b>(44,668)</b>       |
| Net increase in cash and cash equivalents  | 178,364                            | 1,912                 |

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|  |            |          |
|--|------------|----------|
| Cash and cash equivalents at beginning of period | 7,783      | 6,755    |
| Cash and cash equivalents at end of period       | \$ 186,147 | \$ 8,667 |

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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

**INTERIM FINANCIAL STATEMENTS** The accompanying unaudited condensed consolidated financial statements of Flowers Foods, Inc. (the company) have been prepared by the company's management in accordance with generally accepted accounting principles (GAAP) for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, the unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of 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 sixteen week periods ended April 21, 2012 and April 23, 2011 are not necessarily indicative of the results to be expected for a full year. The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

**ESTIMATES** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The company believes the following critical accounting estimates affect its more significant judgments and estimates used in the preparation of its consolidated financial statements: revenue recognition, derivative instruments, valuation of long-lived assets, goodwill and other intangibles, self-insurance reserves, income tax expense and accruals and pension obligations. These estimates are summarized in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

**REPORTING PERIODS** The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2012 consists of 52 weeks, with the company's quarterly reporting periods as follows: first quarter ended April 21, 2012 (sixteen weeks), second quarter ending July 14, 2012 (twelve weeks), third quarter ending October 6, 2012 (twelve weeks) and fourth quarter ending December 29, 2012 (twelve weeks).

**SEGMENTS** The company is one of the largest producers and marketers of bakery products in the United States. The company consists of two business segments: direct-store-delivery (DSD segment) and warehouse delivery segment (warehouse segment). The DSD segment focuses on the production and marketing of bakery products to U.S. customers in the Southeast, Mid-Atlantic, and Southwest as well as select markets in the Northeast, California and Nevada primarily through its DSD system. The warehouse segment produces snack cakes and breads and rolls that are shipped both fresh and frozen to national retail, foodservice, vending, and co-pack customers through their warehouse channels.

**SIGNIFICANT CUSTOMER** Following is the effect our largest customer, Wal-Mart/Sam's Club, had on the company's sales for the sixteen weeks ended April 21, 2012 and April 23, 2011. No other customer accounted for 10% or more of the company's sales.

|                    | <b>FOR THE SIXTEEN WEEKS ENDED</b> |                           |
|--------------------|------------------------------------|---------------------------|
|                    | <b>APRIL 21,<br/>2012</b>          | <b>APRIL 23,<br/>2011</b> |
|                    | <b>(Percent of Sales)</b>          |                           |
| DSD                | 17.6%                              | 17.9%                     |
| Warehouse delivery | 3.7                                | 4.0                       |
| <b>Total</b>       | <b>21.3%</b>                       | <b>21.9%</b>              |

**SIGNIFICANT ACCOUNTING POLICIES** There were no significant changes to our critical accounting policies for the quarter ended April 21, 2012 from those disclosed in our Form 10-K filed for the year ended December 31, 2011.

**2. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

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In December 2011, the FASB issued guidance for offsetting (netting) assets and liabilities. This guidance requires entities to disclose both gross information and net information about both instruments and transactions subject to an agreement similar to a master netting agreement. This includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. These disclosures allow users of the financial statements to understand the effect of those arrangements on a company's financial position. This guidance is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. These requirements are retrospective for all comparative periods. The company is still analyzing the potential impact of this guidance on the company's consolidated financial statements.

**Table of Contents****3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The company's total comprehensive income presently consists of net income, adjustments for our derivative financial instruments accounted for as cash flow hedges, and various pension and other postretirement benefit related items. Total comprehensive income, determined as net income adjusted by other comprehensive income, was \$41.8 million and \$36.8 million for the sixteen weeks ended April 21, 2012 and April 23, 2011, respectively.

During the sixteen weeks ended April 21, 2012, changes to accumulated other comprehensive loss, net of income tax, were as follows (amounts in thousands):

|  | <b>2012</b>  |
|--|--------------|
| Accumulated other comprehensive loss, December 31, 2011  | \$ (112,047) |
| Derivative transactions:   |              |
| Reclassified to earnings (materials, labor and other production costs), net of income tax of \$6,283 | 10,036       |
| Net amount of loss recognized on the effective portion, net of income tax of \$(4,388)               | (7,009)      |
| Pension and postretirement plans transactions:   |              |
| Amortization of prior service credits, net of income tax of \$(30)                                   | (49)         |
| Amortization of actuarial loss, net of income tax of \$567   | 906          |
| Accumulated other comprehensive loss, April 21, 2012   | \$ (108,163) |

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 balance in accumulated other comprehensive loss consists of the following:

|  | <b>April 21,<br/>2012</b>     | <b>December 31,<br/>2011</b> |
|--|-------------------------------|------------------------------|
|  | <b>(Amounts in thousands)</b> |                              |
| Derivatives designated as cash flow hedges | \$ (11,881)                   | \$ (14,908)                  |
| Pension and postretirement plans           | (96,282)                      | (97,139)                     |
| Total                                      | \$ (108,163)                  | \$ (112,047)                 |

**4. ACQUISITION**

On May 20, 2011, a wholly owned subsidiary of the company acquired Tasty Baking Company (Tasty). Tasty operates two bakeries in Pennsylvania and serves customers primarily in the northeastern United States with an extensive line of *Tastykake* branded snacks. The results of Tasty's operations are included in the company's consolidated financial statements as of May 20, 2011 and are included in the company's DSD segment. The acquisition facilitated our expansion into new geographic markets and increased our manufacturing capacity. In addition, the *Tastykake* brand increased our position in the branded snack cake category.

The aggregate purchase price was \$172.1 million, including the payoff of certain indebtedness, Tasty transaction expenses and change in control payments. The change in control payments were accrued because they were not paid at closing. During the sixteen weeks ended April 21, 2012, the company paid a portion of the accrued change in control payments. The acquisition was completed through a short-form merger following the company's tender offer through a wholly owned subsidiary for all of the outstanding shares of common stock of Tasty for \$4.00 per share in cash, without interest and less any applicable withholding tax. Each share of Tasty not accepted for payment in the tender offer was converted pursuant to the acquisition into the right to receive \$4.00 per share in cash as consideration, without interest and less any applicable withholding taxes.

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The company incurred \$6.2 million of acquisition-related costs during 2011. These expenses were included in the selling, distribution and administrative expense line item in the company's consolidated statement of income for the 52 weeks ended December 31, 2011.



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

|  |            |
|--|------------|
| <b>Fair value of consideration transferred:</b>  |            |
| Total tender, acquisition consideration, debt cash payments and change in control payments | \$ 172,109 |
| <b>Recognized amounts of identifiable assets acquired and liabilities assumed:</b>         |            |
| Financial assets   | \$ 44,160  |
| Inventories  | 7,830      |
| Property, plant, and equipment   | 99,796     |
| Identifiable intangible assets   | 51,419     |
| Deferred income taxes  | 15,516     |
| Financial liabilities  | (66,189)   |
| Net recognized amounts of identifiable assets acquired                                     | \$ 152,532 |
| Goodwill   | \$ 19,577  |

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

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

Goodwill of \$19.6 million was allocated to the DSD segment. The primary reasons for the acquisition are to expand the company's footprint into the northeastern United States, distribute *Tastykake* products throughout our distribution network and *Nature's Own* products throughout the legacy Tasty markets. None of the intangible assets, including goodwill, are deductible for tax purposes.

The fair value of the assets acquired includes trade receivables of \$17.3 million. The gross amount due was \$20.2 million, of which \$2.9 million is expected to be uncollectible.

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of Tasty occurred at the beginning of fiscal 2011 (amounts in thousands, except per share data):

|                                    | For the 16 weeks ended<br>April 23, 2011 |
|------------------------------------|--|
| Sales:                             |  |
| As reported                        | \$ 801,825                               |
| Pro forma                          | \$ 854,429                               |
| Net income:                        |  |
| As reported                        | \$ 41,161                                |
| Pro forma                          | \$ 43,926                                |
| Basic net income per common share: |  |
| As reported                        | \$ 0.30                                  |
| Pro forma                          | \$ 0.32                                  |

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Diluted net income per common share:

|             |    |      |
|-------------|----|------|
| As reported | \$ | 0.30 |
| Pro forma   | \$ | 0.32 |

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

**Table of Contents****5. GOODWILL AND OTHER INTANGIBLES**

There were no changes in the carrying amount of goodwill for the sixteen weeks ended April 21, 2012. The balance as of April 21, 2012 is as follows (amounts in thousands):

|                    |                   |
|--------------------|-------------------|
| DSD                | \$ 212,629        |
| Warehouse delivery | 7,101             |
| <b>Total</b>       | <b>\$ 219,730</b> |

As of April 21, 2012 and December 31, 2011, the company had the following amounts related to amortizable intangible assets (amounts in thousands):

| Asset                     | April 21, 2012    |                             |                   | December 31, 2011 |                             |                   |
|---------------------------|-------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
|                           | Cost              | Accumulated<br>Amortization | Net Value         | Cost              | Accumulated<br>Amortization | Net Value         |
| Trademarks                | \$ 71,677         | \$ 7,545                    | \$ 64,132         | \$ 71,677         | \$ 6,790                    | \$ 64,887         |
| Customer relationships    | 88,921            | 19,704                      | 69,217            | 88,921            | 18,162                      | 70,759            |
| Non-compete agreements    | 1,874             | 1,411                       | 463               | 1,874             | 1,397                       | 477               |
| Distributor relationships | 4,123             | 738                         | 3,385             | 4,123             | 649                         | 3,474             |
| Supply agreement          | 1,050             | 1,023                       | 27                | 1,050             | 916                         | 134               |
| <b>Total</b>              | <b>\$ 167,645</b> | <b>\$ 30,421</b>            | <b>\$ 137,224</b> | <b>\$ 167,645</b> | <b>\$ 27,914</b>            | <b>\$ 139,731</b> |

There is an additional \$1.5 million indefinite life intangible asset, which is not being amortized, separately identified from goodwill.

Aggregate amortization expense for the sixteen weeks ending April 21, 2012 and April 23, 2011 were \$2.5 million and \$1.8 million, respectively.

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

|                   | Amortization<br>of<br>Intangibles |
|-------------------|-----------------------------------|
| Remainder of 2012 | \$ 5,209                          |
| 2013              | \$ 7,471                          |
| 2014              | \$ 7,331                          |
| 2015              | \$ 7,138                          |
| 2016              | \$ 7,041                          |

**6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying value of cash and cash equivalents, accounts receivable and short-term debt approximates fair value because of the short-term maturity of the instruments. Notes receivable are entered into in connection with the purchase of distributors territories by independent distributors. These notes receivable are recorded in the consolidated balance sheet at carrying value which represents the closest approximation of fair value. In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a result, the appropriate interest rate that should be used to estimate the fair value of the distributor notes is the prevailing market rate at which similar loans would be made to distributors with similar credit ratings and for the same maturities. However, the company finances approximately 2,800 territory loans 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

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determine a market interest rate to apply to the notes. The territories are generally financed for up to ten years and the distributor notes are collateralized by the independent distributors' territories. The Tasty sales distribution routes are primarily owned by independent sales distributors that purchased the exclusive right to sell and distribute *Tastykake* products in defined geographical territories. The company maintains a wholly-owned subsidiary to assist in financing route purchase activities if requested by new independent sales distributors, using the route and certain associated assets as collateral. These notes receivable earn interest based on Treasury or LIBOR yields plus a spread.

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During the sixteen weeks ending April 21, 2012 and April 23, 2011, \$4.2 million and \$3.9 million, respectively, was recorded as interest income relating to the distributor notes.

At April 21, 2012 and December 31, 2011, respectively, the carrying values of the distributor notes were as follows (amounts in thousands):

|  | April 21, 2012 | December 31, 2011 |
|--|----------------|-------------------|
| Distributor notes receivable   | \$ 116,648     | \$ 117,058        |
| Current portion of distributor notes receivable recorded in accounts and notes receivable, net | 14,825         | 14,736            |
| Long-term portion of distributor notes receivable  | \$ 101,823     | \$ 102,322        |

At April 21, 2012 and December 31, 2011, the company has evaluated the collectability of the distributor notes and determined that a reserve is not necessary. Payments on these distributor notes are collected by the company weekly in the distributor settlement process.

The fair value of the company's variable rate debt at April 21, 2012 approximates the recorded value. The fair value of the 4.375% senior notes (notes) issued on April 3, 2012, as discussed in Note 8, *Debt and Other Obligations* below, approximates the recorded value at April 21, 2012. 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 disclosures information about our derivative assets and liabilities see Note 7, *Derivative Financial Instruments*.

**7. DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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

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

**COMMODITY PRICE RISK**

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

As of April 21, 2012, the company's hedge portfolio contained commodity derivatives with a net fair value of \$(9.5) million, which is recorded in the following accounts with fair values measured as indicated (amounts in millions):

|                     | Level 1 | Level 2 | Level 3 | Total  |
|---------------------|---------|---------|---------|--------|
| <b>Assets:</b>      |         |         |         |        |
| Other current       | \$ 0.2  | \$      | \$      | \$ 0.2 |
| Other long-term     |         |         |         |        |
| Total               | 0.2     |         |         | 0.2    |
| <b>Liabilities:</b> |         |         |         |        |

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|                 |          |          |          |
|-----------------|----------|----------|----------|
| Other current   | (5.8)    | (3.1)    | (8.9)    |
| Other long-term |          | (0.8)    | (0.8)    |
| Total           | (5.8)    | (3.9)    | (9.7)    |
| Net Fair Value  | \$ (5.6) | \$ (3.9) | \$ (9.5) |

The positions held in the portfolio are used to hedge economic exposure to changes in various raw material prices and effectively fix the price, or limit increases in prices, for a period of time extending into fiscal 2016. 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 April 21, 2012 and December 31, 2011 qualified for hedge accounting.

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

The company entered into a treasury rate lock on March 28, 2012 to fix the interest rate for the ten-year 4.375% Senior 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 and will be amortized to interest expense over the term of the notes.

The company entered into interest rate swaps with notional amounts of \$85.0 million, and \$65.0 million, respectively, to fix the interest rate on the \$150.0 million term loan secured on August 1, 2008 to fund the acquisitions of ButterKrust Bakery and Holsum Bakery, Inc. The current notional amount for the swaps of this amortizing loan is \$82.5 million.

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

As of April 21, 2012, the fair value of the interest rate swaps was \$(2.6) million, which is recorded in the following accounts with fair values measured as indicated (amounts in millions):

|                       | Level 1 | Level 2  | Level 3 | Total    |
|-----------------------|---------|----------|---------|----------|
| <b>Liabilities:</b>   |         |          |         |          |
| Other current         | \$      | \$ (2.3) | \$      | \$ (2.3) |
| Other long-term       |         | (0.3)    |         | (0.3)    |
| Total                 |         | (2.6)    |         | (2.6)    |
| <b>Net Fair Value</b> | \$      | \$ (2.6) | \$      | \$ (2.6) |

During the sixteen weeks ended April 21, 2012, interest expense of \$1.0 million was recognized due to periodic settlements of the swap agreements.

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

| Derivatives designated as hedging instruments | Derivative Assets      |               |                           |              | Derivative Liabilities      |                  |                             |                 |
|---|------------------------|---------------|---------------------------|--------------|-----------------------------|------------------|-----------------------------|-----------------|
|   | April 21, 2012 Balance |               | December 31, 2011 Balance |              | April 21, 2012 Balance      |                  | December 31, 2011 Balance   |                 |
|   | Sheet location         | Fair Value    | Sheet location            | Fair Value   | Sheet location              | Fair Value       | Sheet location              | Fair Value      |
| Interest rate contracts                       |                        | \$            |                           | \$           | Other current liabilities   | \$ 2,327         | Other current liabilities   | \$ 2,639        |
| Interest rate contracts                       |                        |               |                           |              | Other long term liabilities | 306              | Other long term liabilities | 765             |
| Commodity contracts                           | Other current assets   | 236           | Other current assets      |              | Other current liabilities   | 8,920            | Other current liabilities   | 5,439           |
| Commodity contracts                           | Other long term assets |               | Other long term assets    | 61           | Other long term liabilities | 803              | Other long term liabilities | 278             |
| <b>Total</b>                                  |                        | <b>\$ 236</b> |                           | <b>\$ 61</b> |                             | <b>\$ 12,356</b> |                             | <b>\$ 9,121</b> |





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The company has the following derivative instruments for deferred gains and (losses) on closed contracts and the effective portion for changes in fair value recorded in accumulated other comprehensive income ( AOCI ), all of which are utilized for the risk management purposes detailed above (amounts in thousands and net of tax):

| Derivatives in<br><br>Cash Flow<br>Hedge<br><br>Relationships | Amount of Gain or (Loss)<br><br>Recognized in OCI on |                 | Location of Gain or (Loss)<br><br>Reclassified from AOCI into Income<br><br>(Effective Portion) | Amount of Gain or (Loss) Reclassified<br><br>from Accumulated OCI into Income<br>(Effective Portion)(Net of tax) |                  |
|---|--|-----------------|---|--|------------------|
|   | Derivative (Effective Portion)(Net of tax)           |                 |   | For the sixteen weeks ended  |                  |
|   | For the sixteen weeks ended                          |                 |   | For the sixteen weeks ended  |                  |
|   | April 21, 2012                                       | April 23, 2011  |   | April 21, 2012   | April 23, 2011   |
| Interest rate contracts                                       | \$ (1,548)   | \$ (138)        | Interest expense  | \$ (590)   | \$ (800)         |
| Commodity contracts   | (5,461)  | 8,630           | Production costs(1)   | (9,446)  | 14,095           |
| <b>Total</b>  | <b>\$ (7,009)</b>                                    | <b>\$ 8,492</b> |   | <b>\$ (10,036)</b>   | <b>\$ 13,295</b> |

1. Included in Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately).

| Derivatives in Cash<br>Flow Hedge Relationships | Location of Gain or (Loss) Recognized<br>in Income on Derivative (Ineffective<br>Portion and Amount Excluded from<br>Effectiveness Testing) | Amount of Gain or (Loss)<br>Recognized in Income on<br>Derivative (Ineffective Portion<br>and Amount Excluded from<br>Effectiveness Testing)<br>For the sixteen weeks ended |  |
|---|---|---|--|
|   |   | April 21, 2012  | April 23, 2011                                 |
|   |   | Interest rate contracts   | Selling, marketing and administrative expenses |
| Commodity contracts                             | Selling, marketing and administrative expenses  |   |  |
| <b>Total</b>                                    |   | <b>\$ (627)</b>   | <b>\$</b>                                      |

The balance in accumulated other comprehensive income (loss) related to commodity price risk and interest rate risk derivative transactions that are closed or will expire in the next four years are as follows (amounts in millions and net of tax) at April 21, 2012:

|                  | Commodity price<br>risk<br>derivatives |               | Interest rate risk<br>derivatives | Totals         |
|------------------|--|---------------|-----------------------------------|----------------|
|                  |  |               |                                   |                |
| Closed contracts | \$ 3.0                                 | \$ 1.4        |                                   | \$ 4.4         |
| Expiring in 2012 | 5.0                                    | 1.1           |                                   | 6.1            |
| Expiring in 2013 | 0.6                                    | 0.5           |                                   | 1.1            |
| Expiring in 2014 | 0.1                                    |               |                                   | 0.1            |
| Expiring in 2015 | 0.1                                    |               |                                   | 0.1            |
| Expiring in 2016 | 0.1                                    |               |                                   | 0.1            |
| <b>Total</b>     | <b>\$ 8.9</b>                          | <b>\$ 3.0</b> |                                   | <b>\$ 11.9</b> |

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As of April 21, 2012, the company had the following outstanding financial contracts that were entered to hedge commodity and interest rate risk:

| <b>Derivatives in Cash Flow Hedge Relationship</b> | <b>Notional amount (millions)</b> |              |
|--|-----------------------------------|--------------|
| Interest rate contracts                            | \$                                | 82.5         |
| Wheat contracts                                    |                                   | 65.6         |
| Soybean oil contracts                              |                                   | 16.3         |
| Natural gas contracts                              |                                   | 10.9         |
| <b>Total</b>                                       | <b>\$</b>                         | <b>175.3</b> |

The company's derivative instruments contain no credit-risk-related contingent features at April 21, 2012. As of April 21, 2012 and December 31, 2011, the company had \$11.7 million and \$11.8 million, respectively, in other current assets representing collateral for hedged positions.

**Table of Contents****8. DEBT AND OTHER OBLIGATIONS**

Long-term debt and capital leases consisted of the following at April 21, 2012 and December 31, 2011 (amounts in thousands):

|   | April 21, 2012 | December 31, 2011 |
|---|----------------|-------------------|
| Unsecured credit facility                 | \$             | \$ 225,000        |
| Unsecured term loan                       | 82,500         | 90,000            |
| 4.375% Senior notes due 2022              | 399,045        |                   |
| Capital lease obligations                 | 13,260         | 9,272             |
| Other notes payable                       | 1,766          | 1,902             |
|   | 496,571        | 326,174           |
| Less current maturities of long-term debt | 53,571         | 42,768            |
| Total long-term debt                      | \$ 443,000     | \$ 283,406        |

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. A 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 consolidated statements of cash flows. Bank overdrafts are included in other current liabilities on our consolidated balance sheets. As of April 21, 2012 and December 31, 2011, the bank overdraft balance was \$1.1 million and \$10.2 million, respectively.

The company also had standby letters of credit ( LOCs ) outstanding of \$14.3 million and \$14.7 million at April 21, 2012 and December 31, 2011, respectively, which reduce the availability of funds under the credit facility. The outstanding LOCs are for the benefit of certain insurance companies. None of the LOCs are recorded as a liability on the consolidated balance sheets.

**Senior Notes, Credit Facility, and Term Loan**

*Senior Notes.* On April 3, 2012, the company issued \$400 million of ten-year 4.375% Senior Notes (the notes ). The company will pay 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. 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. 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, sale and leaseback transactions, sales of assets, mergers and consolidations.

The net proceeds from this offering were partially used to repay \$207.2 million of long-term debt then outstanding under the company's revolving credit facility. The balance of the net proceeds will be used for future acquisitions, general corporate purposes and working capital. The face value of the notes is \$400.0 million and the current discount on the notes is \$1.0 million. The company paid costs (including underwriting fees and legal fees) for issuing the senior notes of \$3.8 million. The issuance costs and the debt discount are being amortized to interest expense over the term of the senior notes. As of April 21, 2012 the company was in compliance with the restrictive covenants under the notes.

*Credit Facility.* On May 20, 2011, the company amended and restated its credit facility (the new credit facility ), which was previously amended on October 5, 2007 (the former credit facility ). The new credit facility is a five-year, \$500.0 million senior unsecured revolving loan facility with two, one-year extension options. Further, the company may request to increase its borrowings under the new credit facility up to an aggregate of \$700.0 million upon the satisfaction of certain conditions. Proceeds from the new 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 new 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

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credit capacity, it can comply with the current terms of the new credit facility and can meet presently foreseeable financial requirements. As of April 21, 2012 and December 31, 2011, the company was in compliance with all restrictive financial 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 0.30% to 1.25% for base rate loans and from 1.30% to 2.25% for Eurodollar loans. In addition, a facility fee ranging from 0.20% 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 \$2.0 million in connection with the amendment of the new credit facility, which, in addition to the remaining balance of the original \$1.0 million in financing costs, is being amortized over the life of the new credit facility. The company recognized financing costs of \$0.1 million related to the former credit facility at the time of the amendment for the new credit facility.

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There were no outstanding borrowings under the credit facility at April 21, 2012, and \$225.0 million outstanding at December 31, 2011. The highest outstanding daily balance during 2012 was \$230.0 million and the low amount outstanding balance was zero. 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 7, *Derivative Financial Instruments*, of Notes to Consolidated Financial Statements of this Form 10-Q. For the sixteen weeks ending April 21, 2012, the company borrowed \$332.3 million in revolving borrowings under the credit facility and repaid \$557.3 million in revolving borrowings. On April 21, 2012, the company had \$485.7 million available under its credit facilities for working capital and general corporate purposes. The amount available under the credit facility is reduced by \$14.3 million for letters of credit.

*Term Loan.* On May 20, 2011, the company amended its credit agreement entered on August 1, 2008 (the term loan), to conform the terms to the new credit facility. The term loan provides for an amortizing \$150.0 million of borrowings through the maturity date of August 1, 2013. Principal payments are due quarterly under the term loan beginning on December 31, 2008 at an annual amortization of 10% of the principal balance for each of the first two years, 15% during the third year, 20% during the fourth year, and 45% during the fifth year. The term loan 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 term loan and meet financial requirements for the next twelve months. As of April 21, 2012 and December 31, 2011, the company was in compliance with all restrictive financial covenants under the term loan. As of April 21, 2012 and December 31, 2011, the amounts outstanding under the term loan were \$82.5 million and \$90.0 million, respectively.

Interest on the term loan is due quarterly in arrears on outstanding borrowings at a customary Eurodollar rate or the base rate plus applicable margin. The underlying rate is defined as the rate offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranges from 0.0% to 1.375% for base rate loans and from 0.875% to 2.375% for Eurodollar loans and is based on the company's leverage ratio. The company paid additional financing costs of \$0.1 million in connection with the amendment of the term loan, which, in addition to the remaining balance of the original \$0.8 million in financing costs, is being amortized over the remaining life of the term loan.

*Credit Ratings.* Currently, the company's credit ratings by Fitch Ratings, Moody's, 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 new credit facility or term loan, but could affect future credit availability and cost.

## **9. VARIABLE INTEREST ENTITY**

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 variable interest entity (VIE). Under previous accounting guidance, we consolidated the VIE in our consolidated financial statements from the first quarter of 2004 through the fourth quarter of 2009 because during that time the company was considered to be the primary beneficiary. Under the revised principles, which became effective at the beginning of our fiscal 2010, we determined that the company is no longer the primary beneficiary and we deconsolidated the VIE in our financial statements.

As part of the deconsolidation of the VIE, the company 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 April 21, 2012 and December 31, 2011, there was \$12.2 million and \$7.9 million, respectively, in net property, plant and equipment and capital lease obligations associated with the right to use leases.

As part of the Tasty acquisition the incorporated independent distributors (IDs) who deliver *Tastykake* products also qualify as VIEs. The IDs qualify as VIEs primarily because Tasty (and now the company) financed the routes, which creates variability to the company from various economic and pecuniary benefits. However, 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 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 company's maximum exposure related to the distributor route notes receivable of these VIEs is less than 10% of the total distributor route notes receivable for the consolidated company. The independent distributors who deliver our products that are formed as sole proprietorships are excluded from this analysis.



**Table of Contents****10. 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.

On July 23, 2008, a wholly-owned subsidiary of the company filed a lawsuit against Hostess Brands, Inc. (formerly Interstate Bakeries Corporation) in the United States District Court for the Northern District of Georgia. The complaint alleges that Hostess is infringing upon Flowers' *Nature's Own* trademarks by using or intending to use the *Nature's Pride* trademark. Flowers asserts that Hostess' sale or intended sale of baked goods under the *Nature's Pride* trademark is likely to cause confusion with, and likely to dilute the distinctiveness of, the *Nature's Own* mark and constitutes unfair competition and deceptive trade practices. Flowers is seeking actual damages, an accounting of Hostess' profits from its sales of *Nature's Pride* products, and injunctive relief. Flowers sought summary judgment for its claims, which was denied by the court. On January 11, 2012, Hostess filed a voluntary petition for relief in the United States Bankruptcy Court for the Southern District of New York under Chapter 11, Title 11, United States Code. The bankruptcy filing automatically stayed the trademark lawsuit.

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 is currently in substantial compliance with all material environmental regulations affecting the company and its properties.

**11. 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 sixteen weeks ended April 21, 2012 and April 23, 2011 (amounts in thousands, except per share data):

|   | <b>For the Sixteen Weeks Ended</b> |                           |
|---|------------------------------------|---------------------------|
|   | <b>April 21,<br/>2012</b>          | <b>April 23,<br/>2011</b> |
| Net income  | \$ 37,943                          | \$ 41,161                 |
| <b>Basic Earnings Per Common Share:</b>   |                                    |                           |
| Weighted average shares outstanding for common stock  | 135,496                            | 135,178                   |
| Weighted average shares outstanding for participating securities  |                                    | 143                       |
| Basic weighted average shares outstanding for common stock  | 135,496                            | 135,321                   |
| Basic earnings per common share   | \$ 0.28                            | \$ 0.30                   |
| <b>Diluted Earnings Per Common Share:</b>   |                                    |                           |
| Basic weighted average shares outstanding for common stock  | 135,496                            | 135,321                   |
| Add: Shares of common stock assumed issued upon exercise of stock options, vesting of performance-contingent restricted stock, and deferred stock | 1,686                              | 1,160                     |
| Diluted weighted average shares outstanding for common stock  | 137,182                            | 136,481                   |
| Diluted earnings per common share   | \$ 0.28                            | \$ 0.30                   |

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Stock options to purchase 3,374,501 shares of common stock were not included in the computation of diluted earnings per share for the sixteen weeks ended April 23, 2011 because their effect would have been anti-dilutive. There were no anti-dilutive shares outstanding at April 21, 2012.



**Table of Contents****12. STOCK BASED COMPENSATION**

Flowers Foods' 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009 (EPIP), authorizes 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) are eligible to receive awards under the EPIP. The aggregate number of shares that may be issued or transferred under the EPIP is 27,937,500 shares. Over the life of the EPIP, the company has only issued options, restricted stock and deferred stock. The following is a summary of stock options, restricted stock, and deferred stock outstanding under the EPIP. Information relating to the company's stock appreciation rights which are not issued under the EPIP is also disclosed below.

*Stock Options*

The following non-qualified stock options (NQSOs) have been granted under the EPIP with service period remaining. The Black-Scholes option-pricing model was used to estimate the grant date fair value (amounts in thousands, except price data and as indicated):

|   |                  |                 |
|---|------------------|-----------------|
| <b>Grant date</b>                           | <b>2/10/2011</b> | <b>2/9/2010</b> |
| Shares granted                              | 2,142            | 1,703           |
| Exercise price(\$)                          | 16.31            | 16.67           |
| <b>Vesting date</b>                         | <b>2/10/2014</b> | <b>2/9/2013</b> |
| Fair value per share(\$)                    | 3.47             | 3.69            |
| Dividend yield(%) <sup>(1)</sup>            | 3.00             | 3.00            |
| Expected volatility(%) <sup>(2)</sup>       | 29.20            | 30.60           |
| Risk-free interest rate(%) <sup>(3)</sup>   | 2.44             | 2.35            |
| Expected option life (years) <sup>(4)</sup> | 5.00             | 5.00            |
| Outstanding at April 21, 2012               | 2,107            | 1,650           |

1. Dividend yield – estimated yield based on the historical dividend payment for the four most recent dividend payments prior to the grant date.

2. Expected volatility – based on historical volatility over the expected term using daily stock prices.

3. Risk-free interest rate – United States Treasury Constant Maturity rates as of the grant date over the expected term.

4. Expected option life – The 2011 and 2010 grant assumptions are based on the simplified formula determined in accordance with Staff Accounting Bulletin No. 110. The company does not have sufficient historical exercise behavior data to reasonably estimate the expected option life.

The stock option activity for the sixteen weeks ended April 21, 2012 pursuant to the EPIP is set forth below (amounts in thousands, except price data):

|                | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term (Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|----------------|--|--|--|
| <b>Options</b> |  |  |  |

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|                                  |       |          |      |           |
|----------------------------------|-------|----------|------|-----------|
| Outstanding at December 31, 2011 | 7,423 | \$ 15.67 |      |           |
| Granted                          |       | \$       |      |           |
| Exercised                        | (18)  | \$ 12.66 |      |           |
| Forfeited                        | (13)  | \$ 16.32 |      |           |
| Outstanding at April 21, 2012    | 7,392 | \$ 15.68 | 4.06 | \$ 42,275 |
| Exercisable at April 21, 2012    | 3,666 | \$ 14.88 | 2.73 | \$ 23,896 |

As of April 21, 2012, there was \$4.2 million of total unrecognized compensation expense related to unvested stock options. This expense is expected to be recognized over a weighted-average period of 1.5 years.

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The cash received, the (shortfall) windfall tax (expense) benefit, and intrinsic value from stock option exercises for the sixteen weeks ended April 21, 2012 and April 23, 2011 were as follows (amounts in thousands):

|  | April 21,<br>2012 | April 23,<br>2011 |
|--|-------------------|-------------------|
| Cash received from option exercises        | \$ 233            | \$ 1,007          |
| Cash tax windfall (shortfall), net         | \$ 23             | \$ 489            |
| Intrinsic value of stock options exercised | \$ 124            | \$ 1,520          |

Generally, if the employee dies, becomes disabled or retires at normal retirement age (age 65 or later), the nonqualified stock options immediately vest and must be exercised within two years. In addition, nonqualified stock options will vest if the company undergoes a change in control.

*Performance-Contingent Restricted Stock*

Certain key employees have been granted performance-contingent restricted stock. 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 performance condition requires the company's return on invested capital to exceed its weighted average cost of capital by 3.75% (the ROI Target) over the two fiscal years immediately preceding the vesting date. If the ROI Target is not met the awards are forfeited. If the ROI Target is satisfied, then the performance-contingent restricted stock grant may be adjusted based on the company's total return to shareholders (Company TSR) percent rank as compared to the total return to shareholders of the S&P Packaged Food & Meat Index (S&P TSR) in the manner set forth below:

If the Company TSR rank is equal to the 50th percentile of the S&P TSR, then no adjustment;

If the Company TSR rank is less than the 50th percentile of the S&P TSR, the grant shall be reduced by 1.3% for each percentile below the 50th percentile that the Company TSR is less than the 50th percentile of S&P TSR, but in no event shall such reduction exceed 20%; or

If the Company TSR rank is greater than the 50th percentile of the S&P TSR, the grant shall be increased by 1.3% for each percentile above the 50th percentile that Company TSR is greater than the 50th percentile of S&P TSR, but in no event shall such increase exceed 20%.

In connection with the vesting of the performance-contingent restricted stock granted in February 2010, during the sixteen weeks ended April 21, 2012, the Company TSR rank was less than the 37th percentile and the grant was reduced by 16.9% of the award or 43,490 common shares. The total amount of shares that vested to plan participants was 213,271. Because the company achieved the ROI Target the cost for the portion of the award that did not vest was not reversed.

The performance-contingent restricted stock generally vests immediately if the grantee dies or becomes disabled. However, at normal retirement the grantee will receive a pro-rata number of shares through the grantee's retirement date at the normal vesting date. In addition, the performance-contingent restricted stock will immediately vest at the grant date award level without adjustment if the company undergoes a change in control. During the vesting period, the grantee is treated as a normal shareholder with respect to voting rights. Dividends declared during the vesting period will accrue and will be paid at vesting for the shares that ultimately vest but will not exceed 100% of the award. The performance-contingent restricted stock granted in February 2010 paid accumulated dividends upon vesting of \$0.2 million. The fair value estimate was determined using a *Monte Carlo* simulation model, which utilizes multiple input variables to determine 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) total stockholder return 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' total stockholder return. The inputs are based on historical capital market data.

The following restricted stock award has been granted under the EPIP and has remaining service period (amounts in thousands, except price data):

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|                          |                  |
|--------------------------|------------------|
| <b>Grant date</b>        | <b>2/10/2011</b> |
| Shares granted           | 324              |
| Approximate vesting date | 2/10/2013        |
| Fair value per share     | \$ 15.93         |

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The company's performance-contingent restricted stock activity during the quarter ended April 21, 2012, is presented below (amounts in thousands, except price data):

|   | Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|---|--------|---|
| Nonvested at December 31, 2011                | 576    | \$ 16.67  |
| Grant reduction for not achieving the S&P TSR | (43)   | \$ 17.59  |
| Vested  | (213)  | \$ 17.59  |
| Forfeited                                     | (2)    | \$ 16.53  |
| Nonvested at April 21, 2012                   | 318    | \$ 15.93  |

As of April 21, 2012, there was \$2.0 million of total unrecognized compensation cost related to nonvested restricted stock granted by the EPIP. That cost is expected to be recognized over a weighted-average period of 0.8 years. The total intrinsic value of shares vested during the period ended April 21, 2012 was \$3.4 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 vest after one year and can be exercised over nine years. The company records 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. The liability for these rights at April 21, 2012 and December 31, 2011 was \$2.7 million and \$2.3 million, respectively, and is recorded in other long-term liabilities.

The fair value of the rights at April 21, 2012 ranged from \$9.03 to \$20.59. The following assumptions were used to determine fair value of the rights discussed above using the *Black-Scholes* option-pricing model at April 21, 2012: dividend yield 3.0%; expected volatility 29.0%; risk-free interest rate 0.84% and expected life of 0.30 years to 2.05 years.

The rights activity for the sixteen weeks ended April 21, 2012 is set forth below (amounts in thousands except price data):

|                                  | Rights | Weighted<br>Average<br>Fair<br>Value | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|--------|--------------------------------------|---|---------------------------------|
| Outstanding at December 31, 2011 | 187    | \$ 12.03                             |   |                                 |
| Rights exercised                 |        |                                      |   |                                 |
| Rights forfeited                 |        |                                      |   |                                 |
| Outstanding at April 21, 2012    | 187    | \$ 12.03                             | 2.17  | \$ 2,483                        |

*Deferred Stock*

Pursuant to the EPIP, the company allows non-employee directors to convert their annual board retainers into deferred stock. The deferred stock has 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. During the first quarter of fiscal 2012 an aggregate of 18,330 shares were converted. The company records compensation expense for this deferred stock over the two-year minimum vesting period based on the closing price of the company's common stock on the date of conversion. During the sixteen weeks ending April 21, 2012, a total of 20,205 deferred shares were exercised for retainer conversions.

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Pursuant to the EPIP non-employee directors also receive annual grants of deferred stock. This deferred stock vests over one year from the grant date. During the second quarter of fiscal 2011, non-employee directors were granted an aggregate of 50,400 shares of deferred stock. 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. During the sixteen weeks ending April 21, 2012, there were no deferred shares awards exercised for annual grant awards.

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The deferred stock activity for the sixteen weeks ended April 21, 2012 is set forth below (amounts in thousands, except price data):

|  | Shares | Weighted<br>Average<br>Fair<br>Value | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value |
|--|--------|--------------------------------------|---|---------------------------------|
| Balance at December 31, 2011                           | 231    | \$ 16.43                             |   |                                 |
| Deferred stock issued                                  | 18     | \$ 17.03                             |   |                                 |
| Deferred stock exercised                               | (20)   | \$ 14.49                             |   |                                 |
| Balance at April 21, 2012                              | 229    | \$ 16.65                             | 0.24  | \$ 4,905                        |
| Outstanding vested at April 21, 2012                   | 135    | \$ 15.08                             |   | \$ 2,889                        |
| Outstanding unvested at April 21, 2012                 | 94     | \$ 18.90                             | 0.58  | \$ 2,015                        |
| Shares vesting during the quarter ended April 21, 2012 | 27     | \$ 14.49                             |   | \$ 577                          |

As of April 21, 2012, there was \$0.5 million of total unrecognized compensation cost related to deferred stock awards granted under the EPIP.

The following table summarizes the company's stock based compensation expense for the sixteen weeks ended April 21, 2012 and April 23, 2011 (amounts in thousands):

|   | April 21,<br>2012 | April 23,<br>2011 |
|---|-------------------|-------------------|
| Stock options                           | \$ 1,202          | \$ 3,542          |
| Performance-contingent restricted stock | 1,005             | 1,432             |
| Stock appreciation rights               | 424               | 514               |
| Deferred stock                          | 433               | 441               |
| Total stock based compensation          | \$ 3,064          | \$ 5,929          |

**13. POST-RETIREMENT PLANS**

The following summarizes the company's balance sheet related pension and other postretirement benefit plan accounts at April 21, 2012 as compared to accounts at December 31, 2011 (amounts in thousands):

|  | April 21,<br>2012 | December 31,<br>2011 |
|--|-------------------|----------------------|
| Current benefit liability                        | \$ 1,334          | \$ 1,335             |
| Noncurrent benefit liability                     | \$ 141,921        | \$ 155,263           |
| Accumulated other comprehensive loss, net of tax | \$ 96,282         | \$ 97,139            |

**Defined Benefit Plans and Nonqualified Plan**

The company has trustee, noncontributory defined benefit pension plans covering certain employees. The benefits are based on years of service and the employees' career earnings. The plans are funded at amounts deductible for income tax purposes but not less than the minimum funding

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required by the Employee Retirement Income Security Act of 1974 ( ERISA ). As of April 21, 2012, the assets of the plans included certificates of deposit, marketable equity securities, mutual funds, corporate and government debt securities, private and public real estate partnerships, other diversifying strategies and annuity contracts. Effective January 1, 2006, the company curtailed the defined benefit plan that covers the majority of its workforce. Benefits under this plan were frozen, and no future benefits will accrue under this plan. The company continues to maintain a plan that covers a small number of certain union employees. During the sixteen weeks ended April 21, 2012 the company contributed \$12.1 million to company pension plans. We expect to contribute an additional \$6.1 million during the remainder of fiscal 2012.



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

|  | <b>FOR THE SIXTEEN WEEKS ENDED</b> |                           |
|--|------------------------------------|---------------------------|
|  | <b>APRIL 21,<br/>2012</b>          | <b>APRIL 23,<br/>2011</b> |
| Service cost                             | \$ 188                             | \$ 147                    |
| Interest cost                            | 6,668                              | 5,616                     |
| Expected return on plan assets           | (8,094)                            | (6,657)                   |
| Amortization of net loss                 | 1,565                              | 839                       |
| <b>Total net periodic (benefit) cost</b> | <b>\$ 327</b>                      | <b>\$ (55)</b>            |

The company also has several smaller defined benefit plans associated with recent acquisitions that will be merged into the company's defined benefit plans after receipt of final determination letters.

**Post-Retirement Benefit Plan**

The company provides certain medical and life insurance benefits for eligible retired employees. The plans incorporate 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 postretirement benefit cost for the company includes the following components (amounts in thousands):

|   | <b>FOR THE SIXTEEN WEEKS ENDED</b> |                           |
|---|------------------------------------|---------------------------|
|   | <b>APRIL 21,<br/>2012</b>          | <b>APRIL 23,<br/>2011</b> |
| Service cost                                | \$ 141                             | \$ 131                    |
| Interest cost                               | 186                                | 212                       |
| Amortization of net (gain) loss             | (92)                               | (15)                      |
| Amortization of prior service (credit) cost | (79)                               | (79)                      |
| <b>Total net periodic benefit cost</b>      | <b>\$ 156</b>                      | <b>\$ 249</b>             |

**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 sixteen weeks ended April 21, 2012 and April 23, 2011, the total cost and employer contributions were \$6.5 million and \$6.0 million, respectively.

The company acquired Tasty on May 20, 2011, at which time we assumed sponsorship of a 401(k) savings plan. No employer contributions were made to the Tasty 401(k) savings plan during fiscal 2011, subsequent to the acquisition, or during the sixteen weeks ended April 21, 2012. The Tasty 401(k) Savings Plan will be merged into the Flowers Foods 401(k) Retirement Savings Plan upon receipt of a final determination letter.

**14. INCOME TAXES**

The company's effective tax rate for the first quarter of fiscal 2012 was 35.9%, slightly higher than the 2011 annual effective rate of 35.7%. The most significant differences in the effective rate and the statutory rate are state income taxes and the Section 199 qualifying production activities deduction.

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During the first quarter of fiscal 2012, the company's activity with respect to its FIN 48 reserve 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 received \$7.0 million in federal income tax refunds during the quarter ending April 21, 2012 that were recorded in other current assets at December 31, 2011.

**Table of Contents****15. SEGMENT REPORTING**

The company's DSD segment produces fresh and frozen packaged bread, rolls, tortillas, and snack products and the warehouse delivery segment produces frozen bread and rolls and tortillas 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 segments' core operating businesses. Information regarding the operations in these reportable segments is as follows:

|  | <b>FOR THE SIXTEEN WEEKS ENDED</b> |                           |
|--|------------------------------------|---------------------------|
|  | <b>APRIL 21,<br/>2012</b>          | <b>APRIL 23,<br/>2011</b> |
| <b>SALES:</b>                                      |                                    |                           |
| DSD  | \$ 745,703                         | \$ 654,231                |
| Warehouse delivery                                 | 195,949                            | 191,802                   |
| Eliminations: Sales from warehouse delivery to DSD | (35,041)                           | (36,827)                  |
| Sales from DSD to warehouse delivery               | (8,405)                            | (7,381)                   |
|  | \$ 898,206                         | \$ 801,825                |
| <b>DEPRECIATION AND AMORTIZATION:</b>              |                                    |                           |
| DSD  | \$ 23,820                          | \$ 21,867                 |
| Warehouse delivery                                 | 5,926                              | 6,056                     |
| Other  | (7)                                | 69                        |
|  | \$ 29,739                          | \$ 27,992                 |
| <b>INCOME (LOSS) FROM OPERATIONS:</b>              |                                    |                           |
| DSD  | \$ 63,822                          | \$ 64,219                 |
| Warehouse delivery                                 | 9,594                              | 11,331                    |
| Other  | (14,199)                           | (14,032)                  |
|  | \$ 59,217                          | \$ 61,518                 |
| <b>NET INTEREST EXPENSE (INCOME)</b>               | \$ 24                              | \$ (1,762)                |
| <b>INCOME BEFORE INCOME TAXES</b>                  | \$ 59,193                          | \$ 63,280                 |

Sales by product category in each reportable segment are as follows (amounts in thousands):

|                      | <b>For the Sixteen Weeks Ended April 21, 2012</b> |                               |              | <b>For the Sixteen Weeks Ended April 23, 2011</b> |                               |              |
|----------------------|---|-------------------------------|--------------|---|-------------------------------|--------------|
|                      | <b>DSD</b>  | <b>Warehouse<br/>Delivery</b> | <b>Total</b> | <b>DSD</b>  | <b>Warehouse<br/>Delivery</b> | <b>Total</b> |
| Branded Retail       | \$ 435,122  | \$ 30,147                     | \$ 465,269   | \$ 372,786  | \$ 27,843                     | \$ 400,629   |
| Store Branded Retail | 117,949   | 38,054                        | 156,003      | 100,508   | 39,344                        | 139,852      |
| Non-retail and Other | 184,227   | 92,707                        | 276,934      | 173,556   | 87,788                        | 261,344      |
| Total                | \$ 737,298  | \$ 160,908                    | \$ 898,206   | \$ 646,850  | \$ 154,975                    | \$ 801,825   |

**16. SUBSEQUENT EVENTS**

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The company has evaluated subsequent events since April 21, 2012, the date of these financial statements. We believe there were no events or transactions discovered during this evaluation that require recognition or disclosure in the financial statements.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of the financial condition and results of operations of the company as of and for the sixteen week period ended April 21, 2012 should be read in conjunction with the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

**OVERVIEW:**

Flowers Foods currently operates two business segments: a direct-store-delivery segment ( DSD segment ) and a warehouse delivery segment ( warehouse segment ). The DSD segment operates 32 bakeries that market a wide variety of fresh bakery foods, including fresh breads, buns, rolls, tortillas, and snack cakes. These products are sold through its DSD route delivery system to retail and foodservice customers in the Southeast, Mid-Atlantic, and Southwest as well as in select markets in the Northeast, California, and Nevada. The warehouse segment operates 10 bakeries and produces snack cakes and breads and rolls that are shipped both fresh and frozen to national retail, foodservice, vending, and co-pack customers through their warehouse channels.

We aim to achieve consistent and sustainable growth in sales and earnings by focusing on improvement in the operating results of our existing businesses and, after detailed analysis, acquiring businesses and properties that add value to the company. We believe this consistent and sustainable growth will build value for our shareholders.

Sales are principally affected by pricing, quality, brand recognition, new product introductions and product line extensions, marketing and service. The company manages these factors to achieve a sales mix favoring its higher-margin branded products, while using store brand products to absorb overhead costs and maximize use of production capacity. During the first quarter of 2012, our results were impacted by the competitive landscape and high promotional activity within the baking industry. Sales for the quarter ended April 21, 2012 increased 12.0% from the quarter ended April 23, 2011. This increase was primarily due to the Tasty Baking Company ( Tasty ) acquisition in the second quarter of fiscal 2011 which contributed 7.9% of the growth and to net positive pricing and mix shifts of 2.4% and an increase in volume of 1.7%.

Commodities, such as our baking ingredients, periodically experience price fluctuations, and, for that reason, we continually monitor the market for these commodities. The cost of these inputs may fluctuate widely due to government policy and regulation, weather conditions, domestic and international demand or other unforeseen circumstances. We expect our commodity costs to be higher during 2012 as opposed to the costs experienced during 2011. We enter into forward purchase agreements and other derivative financial instruments qualifying for hedge accounting to reduce the impact of such volatility in raw material prices. Any decrease in the availability of these agreements and instruments could increase the price of these raw materials and significantly affect our earnings.

On April 3, 2012, the Company entered into the Indenture (the Indenture ) between the company, as issuer, and Wells Fargo Bank, National Association, as trustee ( Trustee ), in connection with the offer and sale of \$400.0 million aggregate principal amount of the senior notes ( notes ). The company will pay interest on the notes on each April 1 and October 1, beginning on October 1, 2012. The notes will mature on April 1, 2022. Before January 1, 2022, the Company may, at any time, redeem the notes at a redemption price equal to 100% of the principal amount of such series, plus a make whole premium described in the Indenture. On or after January 1, 2022, the Company may redeem the notes at par, plus accrued and unpaid interest.

**CRITICAL ACCOUNTING POLICIES:**

Our financial statements are prepared in accordance with generally accepted accounting principles ( GAAP ). These principles are numerous and complex. Our significant accounting policies are summarized in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. In many instances, the application of GAAP requires management to make estimates or to apply subjective principles to particular facts and circumstances. A variance in the estimates used or a variance in the application or interpretation of GAAP could yield a materially different accounting result. Please see our Form 10-K for the fiscal year ended December 31, 2011, for a discussion of the areas where we believe that the estimates, judgments or interpretations that we have made, if different, could yield the most significant differences in our financial statements. There have been no significant changes to our critical accounting policies from those disclosed in our Form 10-K filed for the year ended December 31, 2011.

**Table of Contents****RESULTS OF OPERATIONS:**

Results of operations, expressed as a percentage of sales and the dollar and percentage change from period to period, for the sixteen week periods ended April 21, 2012 and April 23, 2011, are set forth below (Dollars in thousands):

|  | For the sixteen weeks ended |                |                     |                | Increase<br>(Decrease) |        |
|--|-----------------------------|----------------|---------------------|----------------|------------------------|--------|
|  |                             |                | Percentage of Sales |                | Dollars                | %      |
|  | April 21, 2012              | April 23, 2011 | April 21, 2012      | April 23, 2011 |                        |        |
| <b>Sales</b>   |                             |                |                     |                |                        |        |
| DSD  | \$ 737,298                  | \$ 646,850     | 82.1                | 80.7           | \$ 90,448              | 14.0   |
| Warehouse delivery   | 160,908                     | 154,975        | 17.9                | 19.3           | 5,933                  | 3.8    |
| Total  | \$ 898,206                  | \$ 801,825     | 100.0               | 100.0          | \$ 96,381              | 12.0   |
| <b>Materials, supplies, labor and other production costs<br/>(exclusive of depreciation and amortization shown<br/>separately below)</b> |                             |                |                     |                |                        |        |
| DSD (1)  | \$ 359,209                  | \$ 298,643     | 48.7                | 46.2           | \$ 60,566              | 20.3   |
| Warehouse delivery(1)  | 119,769                     | 113,615        | 74.4                | 73.3           | 6,154                  | 5.4    |
| Total  | \$ 478,978                  | \$ 412,258     | 53.3                | 51.4           | \$ 66,720              | 16.2   |
| <b>Selling, distribution and administrative expenses</b>   |                             |                |                     |                |                        |        |
| DSD(1)   | \$ 290,447                  | \$ 262,121     | 39.4                | 40.5           | \$ 28,326              | 10.8   |
| Warehouse delivery(1)  | 25,619                      | 23,973         | 15.9                | 15.5           | 1,646                  | 6.9    |
| Corporate(2)   | 14,206                      | 13,963         |                     |                | 243                    | 1.7    |
| Total  | \$ 330,272                  | \$ 300,057     | 36.8                | 37.4           | \$ 30,215              | 10.1   |
| <b>Depreciation and Amortization</b>   |                             |                |                     |                |                        |        |
| DSD(1)   | \$ 23,820                   | \$ 21,867      | 3.2                 | 3.4            | \$ 1,953               | 8.9    |
| Warehouse delivery(1)  | 5,926                       | 6,056          | 3.7                 | 3.9            | (130)                  | (2.1)  |
| Corporate(2)   | (7)                         | 69             |                     |                | (76)                   | NM     |
| Total  | \$ 29,739                   | \$ 27,992      | 3.3                 | 3.5            | \$ 1,747               | 6.2    |
| <b>Income from operations</b>  |                             |                |                     |                |                        |        |
| DSD(1)   | \$ 63,822                   | \$ 64,219      | 8.7                 | 9.9            | \$ (397)               | (0.6)  |
| Warehouse delivery(1)  | 9,594                       | 11,331         | 6.0                 | 7.3            | (1,737)                | (15.3) |
| Corporate(2)   | (14,199)                    | (14,032)       |                     |                | (167)                  | (1.2)  |
| Total  | \$ 59,217                   | \$ 61,518      | 6.6                 | 7.7            | \$ (2,301)             | (3.7)  |
| <b>Interest expense (income), net</b>  |                             |                |                     |                |                        |        |
|  | \$ 24                       | \$ (1,762)     | 0.0                 | 0.2            | \$ (1,786)             | NM     |
| <b>Income taxes</b>  |                             |                |                     |                |                        |        |
|  | \$ 21,250                   | \$ 22,119      | 2.4                 | 2.8            | \$ (869)               | (3.9)  |
| <b>Net income</b>  |                             |                |                     |                |                        |        |
|  | \$ 37,943                   | \$ 41,161      | 4.2                 | 5.1            | \$ (3,218)             | (7.8)  |

1. As a percentage of revenue within the reporting segment

2. The corporate segment has no revenues

**Table of Contents****CONSOLIDATED AND SEGMENT RESULTS**

SIXTEEN WEEKS ENDED APRIL 21, 2012 COMPARED TO SIXTEEN WEEKS ENDED APRIL 23, 2011

*Consolidated Sales.*

|                      | For the Sixteen Weeks Ended<br>April 21, 2012 |        | For the Sixteen Weeks Ended<br>April 23, 2011 |        | % Increase |
|----------------------|---|--------|---|--------|------------|
|                      | \$<br>(Amounts in<br>thousands)               | %      | \$<br>(Amounts in<br>thousands)               | %      |            |
| Branded Retail       | \$ 465,269                                    | 51.8%  | \$ 400,629                                    | 50.0%  | 16.1%      |
| Store Branded Retail | 156,003                                       | 17.4   | 139,852                                       | 17.4   | 11.5%      |
| Non-retail and Other | 276,934                                       | 30.8   | 261,344                                       | 32.6   | 6.0%       |
| Total                | \$ 898,206                                    | 100.0% | \$ 801,825                                    | 100.0% | 12.0%      |

The 12.0% increase in sales was attributable to the following:

| Percentage Point Change in Sales Attributed to: | Favorable |
|---|-----------|
| Pricing/Mix                                     | 2.4%      |
| Volume  | 1.7%      |
| Acquisition                                     | 7.9%      |
| Total percentage change in sales                | 12.0%     |

**Sales category discussion**

The increase in branded retail sales was due primarily to the Tasty acquisition and, to a lesser extent, pricing/mix increases. Increases in branded cake and branded soft variety were partially offset by decreases in branded white bread. The increase in store branded retail sales was due to the acquisition and pricing/mix increases. The increase in non-retail and other sales was due to volume increases, partially offset by pricing/mix decreases.

*Direct-Store-Delivery Sales.*

|                      | For the Sixteen Weeks Ended<br>April 21, 2012 |        | For the Sixteen Weeks Ended<br>April 23, 2011 |        | % Increase |
|----------------------|---|--------|---|--------|------------|
|                      | \$<br>(Amounts in<br>thousands)               | %      | \$<br>(Amounts in<br>thousands)               | %      |            |
| Branded Retail       | \$ 435,122                                    | 59.0%  | \$ 372,786                                    | 57.6%  | 16.7%      |
| Store Branded Retail | 117,949                                       | 16.0   | 100,508                                       | 15.5   | 17.4%      |
| Non-retail and Other | 184,227                                       | 25.0   | 173,556                                       | 26.9   | 6.1%       |
| Total                | \$ 737,298                                    | 100.0% | \$ 646,850                                    | 100.0% | 14.0%      |



The 14.0% increase in sales was attributable to the following:

|  | <b>Favorable</b> |
|--|------------------|
| <b>Percentage Point Change in Sales Attributed to:</b> |                  |
| Pricing/Mix  | 3.4%             |
| Volume   | 0.8%             |
| Acquisition  | 9.8%             |
| <br>Total percentage change in sales                   | <br>14.0%        |

**Table of Contents****Sales category discussion**

The increase in branded retail sales was due primarily to the Tasty acquisition and, to a lesser extent, pricing/mix increases. Growth in branded cake and branded soft variety was partially offset by decreases in branded white bread. The increase in store branded retail sales was due to the acquisition and pricing/mix increases. The increase in non-retail and other sales was due to volume increases, partially offset by pricing/mix declines.

*Warehouse Delivery Sales.*

|                      | For the Sixteen Weeks Ended |        | For the Sixteen Weeks Ended |        | % Increase<br>(Decrease) |
|----------------------|-----------------------------|--------|-----------------------------|--------|--------------------------|
|                      | April 21, 2012              |        | April 23, 2011              |        |                          |
|                      | \$                          | %      | \$                          | %      |                          |
|                      | (Amounts in thousands)      |        | (Amounts in thousands)      |        |                          |
| Branded Retail       | \$ 30,147                   | 18.7%  | \$ 27,843                   | 18.0%  | 8.3%                     |
| Store Branded Retail | 38,054                      | 23.6   | 39,344                      | 25.4   | (3.3)%                   |
| Non-retail and Other | 92,707                      | 57.7   | 87,788                      | 56.6   | 5.6%                     |
| Total                | \$ 160,908                  | 100.0% | \$ 154,975                  | 100.0% | 3.8%                     |

The 3.8% increase in sales was attributable to the following:

| Percentage Point Change in Sales Attributed to: | Favorable<br>(Unfavorable) |
|---|----------------------------|
| Pricing/Mix                                     | (0.2)%                     |
| Volume  | 4.0                        |
| Total percentage change in sales                | 3.8%                       |

**Sales category discussion**

The increase in branded retail sales was primarily the result of increased multi-pak cake volume. The decrease in store branded retail sales was due to volume decreases in store branded cake partially offset by price/mix increases. The increase in non-retail and other sales, which include contract manufacturing and vending, was due to volume increases, partially offset by price/mix decreases.

*Materials, Supplies, Labor and Other Production Costs (exclusive of depreciation and amortization shown separately).* The increase as a percent of sales was primarily due to significant increases in ingredient costs which increased 260 basis points as a percent of sales and higher packaging costs which increased 30 basis points as a percent of sales. These increases were partially offset by sales increases and prior year manufacturing facility closure costs, which were \$2.8 million, or 30 basis points as a percent of sales, net of operational savings.

The DSD segment's increase as a percent of sales was primarily the result of significant increases in ingredient costs which increased 280 basis points as a percent of sales and higher costs as a percent of sales for the Tasty acquisition, partially offset by sales increases, prior year costs associated with closing a manufacturing facility and lower workforce-related costs which together decreased 50 basis points as a percent of sales. The prior year closure costs were \$2.8 million, or 40 basis points as a percent of sales, net of operational savings, and were primarily workforce-related.

The warehouse delivery segment's increase as a percent of sales was primarily a result of higher ingredient costs which increased 140 basis points as a percent of sales. The higher ingredient costs were driven by increases in flour, palm shortening/oil, and sugar.

*Selling, Distribution and Administrative Expenses.* The decrease as a percent of sales was due to sales increases, prior year costs from closing the manufacturing facility which, net of operational savings, impacted costs \$2.4 million, or 30 basis points, as well as lower workforce-related

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costs which decreased 40 basis points as a percent of sales.

The DSD segment's selling, distribution and administrative expenses decreased as a percent of sales primarily due to sales increases and prior year manufacturing facility closure costs which, net of operational savings, impacted costs \$2.4 million, or 40 basis points and lower workforce-related and distribution costs which decreased 30 basis points as a percent of sales.

The warehouse delivery segment's selling, distribution and administrative expenses increased as a percent of sales primarily due to higher distribution costs which increased 80 basis points as a percent of sales, partially offset by lower workforce-related costs which decreased 30 basis points as a percent of sales.

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*Depreciation and Amortization.* Depreciation and amortization increased due to the Tasty acquisition, partially offset by decreases resulting from fully depreciated property, plant and equipment of which \$0.5 million was due to accelerated depreciation from closing the manufacturing facility in the prior year.

The DSD segment's depreciation and amortization expense increased primarily due to the acquisition partially offset by \$0.5 million from accelerated depreciation for closing the manufacturing facility in the prior year.

The warehouse delivery segment's depreciation and amortization expense decreased primarily due to assets fully depreciated subsequent to the first quarter of fiscal 2011.

*Income From Operations.* The decrease in the DSD segment's income from operations was primarily attributable to higher ingredient costs, partially offset by sales increases and the prior year manufacturing facility closure costs of \$5.7 million, net of operational savings. The decrease in the warehouse delivery segment's income from operations was primarily a result of higher ingredient costs. The unallocated corporate expenses were relatively flat.

*Net Interest Expense (Income).* The change was related to higher interest expense from the issuance of the notes and higher amounts outstanding under the company's unsecured credit facility until the amounts outstanding under the credit facility were paid off at the issuance of the notes.

*Income Taxes.* The effective tax rate for the first quarter of fiscal 2012 was 35.9% compared to 35.0% in the first quarter of the prior year. The increase was primarily due to a reduced Section 199 qualifying production activities deduction. The difference in the effective rate and the statutory rate is primarily due to state income taxes and the Section 199 qualifying production activities deduction.

**LIQUIDITY AND CAPITAL RESOURCES:**

Liquidity represents our ability to generate sufficient cash flows from operating activities to meet our obligations and commitments as well as our ability to obtain appropriate financing and convert into cash those assets that are no longer required to meet existing strategic and financing objectives. Therefore, liquidity cannot be considered separately from capital resources that consist primarily of current and potentially available funds for use in achieving long-range business objectives. Currently, the company's liquidity needs arise primarily from working capital requirements, capital expenditures, pension contributions and stock repurchases. The company's strategy for use of its cash flow includes paying dividends to shareholders, making acquisitions, growing internally and repurchasing shares of its common stock when appropriate.

**Cash Flows**

Flowers Foods' cash and cash equivalents increased to \$186.1 million at April 21, 2012 from \$7.8 million at December 31, 2011. The increase resulted from \$60.1 million provided by operating activities and \$131.7 provided by financing activities, offset by \$13.4 million disbursed for investing activities.

*Cash Flows Provided by Operating Activities.* Net cash of \$60.1 million provided by operating activities during the sixteen weeks ended April 21, 2012 consisted primarily of \$37.9 million in net income, adjusted for the following non-cash items (amounts in thousands):

|   |                  |
|---|------------------|
| Depreciation and amortization   | \$ 29,739        |
| Loss reclassified from accumulated other comprehensive income to net income | 15,360           |
| Stock-based compensation  | 3,064            |
| Deferred income taxes   | 573              |
| Provision for inventory obsolescence  | 413              |
| Allowances for accounts receivable  | 660              |
| Pension and postretirement plans expense                                    | 483              |
| Other   | (500)            |
| <b>Total</b>  | <b>\$ 49,792</b> |

Cash disbursed for working capital and other activities was \$27.6 million. As of April 21, 2012, the company had \$11.7 million recorded in other current assets representing collateral for hedged positions. As of December 31, 2011, the company had \$11.8 million recorded in other

current assets representing collateral for hedged positions.

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*Cash Flows Disbursed for Investing Activities.* Net cash disbursed for investing activities during the sixteen weeks ended April 21, 2012 of \$13.4 million consisted primarily of capital expenditures of \$14.3 million. Capital expenditures in the DSD segment and the warehouse delivery segment were \$10.9 million and \$2.3 million, respectively. The company estimates capital expenditures of approximately \$75.0 million to \$85.0 million during fiscal 2012. The company also leases certain production machinery and equipment through various operating leases.

*Cash Flows Provided by Financing Activities.* Net cash provided by financing activities of \$131.7 million during the sixteen weeks ended April 21, 2012 consisted primarily of dividends paid of \$20.6 million, stock repurchases of \$1.4 million, offset by net debt issuances of \$166.1 million, proceeds of \$0.2 million from the exercise of stock options and the share-based payments income tax benefit of \$0.1 million. As part of the senior notes issued, as discussed below, there was an additional \$3.8 million paid for debt issuance costs and \$1.0 million withheld from the gross proceeds of the debt for debt discount.

### **Senior Notes, Credit Facility, and Term Loan**

*Senior Notes.* On April 3, 2012, the company issued \$400 million of ten-year 4.375% Senior Notes (the "notes"). The company will pay 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. 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. 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, sale and leaseback transactions, sales of assets, mergers and consolidations.

The net proceeds from this offering were partially used to repay \$207.2 million of long-term debt then outstanding under the Company's revolving credit facility. The balance of the net proceeds will be used for future acquisitions, general corporate purposes and working capital. The face value of the notes is \$400.0 million and the current discount on the notes is \$1.0 million. The company paid costs (including underwriting fees and legal fees) for issuing the senior notes of \$3.8 million. The issuance costs and the debt discount are being amortized to interest expense over the term of the senior notes. The company was in compliance with the terms of the notes on April 21, 2012.

The company entered into a treasury rate lock on March 28, 2012 to fix the interest rate for the ten-year 4.375% Senior 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 and will be amortized to interest expense over the term of the notes.

*Credit Facility.* On May 20, 2011, the company amended and restated its credit facility (the "new credit facility"), which was previously amended on October 5, 2007 (the "former credit facility"). The new credit facility is a five-year, \$500.0 million senior unsecured revolving loan facility with two, one-year extension options. Further, the company may request to increase its borrowings under the new credit facility up to an aggregate of \$700.0 million upon the satisfaction of certain conditions. Proceeds from the new 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 new 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 new credit facility and can meet presently foreseeable financial requirements. As of April 21, 2012 and December 31, 2011, the company was in compliance with all restrictive financial 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 0.30% to 1.25% for base rate loans and from 1.30% to 2.25% for Eurodollar loans. In addition, a facility fee ranging from 0.20% 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 \$2.0 million in connection with the amendment of the new credit facility, which, in addition to the remaining balance of the original \$1.0 million in financing costs, is being amortized over the life of the new credit facility. The company recognized financing costs of \$0.1 million related to the former credit facility at the time of the amendment for the new credit facility.

There were no outstanding borrowings under the credit facility at April 21, 2012, and \$225.0 million outstanding at December 31, 2011. The highest outstanding daily balance during 2012 was \$230.0 million and the low amount outstanding balance was zero. Amounts outstanding

under the credit facility vary daily. Changes in the gross borrowings and repayments can be caused by cash

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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 7, *Derivative Financial Instruments*, of Notes to Condensed Consolidated Financial Statements of this Form 10-Q. For fiscal 2012, the company borrowed \$332.3 million in revolving borrowings under the credit facility and repaid \$557.3 million in revolving borrowings. On April 21, 2012, the company had \$485.7 million available under its credit facilities for working capital and general corporate purposes. The amount available under the credit facility is reduced by \$14.3 million for letters of credit.

*Term Loan.* On May 20, 2011, the company amended its credit agreement entered on August 1, 2008 (the term loan), to conform the terms to the new credit facility. The term loan provides for an amortizing \$150.0 million of borrowings through the maturity date of August 1, 2013. Principal payments are due quarterly under the term loan beginning on December 31, 2008 at an annual amortization of 10% of the principal balance for each of the first two years, 15% during the third year, 20% during the fourth year, and 45% during the fifth year. The term loan 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 term loan and meet financial requirements for the next twelve months. As of April 21, 2012 and December 31, 2011, the company was in compliance with all restrictive financial covenants under the term loan. As of April 21, 2012 and December 31, 2011, the amounts outstanding under the term loan were \$82.5 million and \$90.0 million, respectively.

Interest on the term loan is due quarterly in arrears on outstanding borrowings at a customary Eurodollar rate or the base rate plus applicable margin. The underlying rate is defined as the rate offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranges from 0.0% to 1.375% for base rate loans and from 0.875% to 2.375% for Eurodollar loans and is based on the company's leverage ratio. The company paid additional financing costs of \$0.1 million in connection with the amendment of the term loan, which, in addition to the remaining balance of the original \$0.8 million in financing costs, is being amortized over the remaining life of the term loan.

*Credit Ratings.* Currently, the company's credit ratings by Fitch Ratings, Moody's, 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 new credit facility or term loan, but could affect future credit availability and cost.

## **Uses of Cash**

On February 23, 2012, the Board of Directors declared a dividend of \$0.15 per share on the company's common stock that was paid on March 23, 2012 to shareholders of record on March 9, 2012. This dividend payment was \$20.3 million.

Our Board of Directors has approved a plan that authorizes share repurchases of up to 45.0 million shares of the company's common stock. Under the plan, the company may repurchase its common stock in open market or privately negotiated transactions at such times and at such prices as determined to be in the company's best interest. These purchases may be commenced or suspended without prior notice depending on then-existing business or market conditions and other factors. During the first quarter of fiscal 2012, 70,742 shares, at a cost of \$1.4 million of the company's common stock were purchased under the plan. From the inception of the plan through April 21, 2012, 37.9 million shares, at a cost of \$432.2 million, have been purchased.

During the first quarter of fiscal 2012, the company paid \$13.4 million, including our share of employment taxes, in performance-based cash awards under the company's bonus plan.

During the first quarter of fiscal 2012, the company contributed \$12.1 million to company pension plans. We expect to contribute an additional \$6.1 million during the remainder of fiscal 2012.

## **Accounting Pronouncements Not Yet Adopted**

In December 2011, the FASB issued guidance for offsetting (netting) assets and liabilities. This guidance requires entities to disclose both gross information and net information about both instruments and transactions subject to an agreement similar to a master netting agreement. This includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. These disclosures allow users of the financial statements to understand the effect of those arrangements on a company's financial position. This guidance is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. These requirements are retrospective for all comparative periods. The company is still analyzing the potential impact of this guidance on the company's consolidated financial statements.





**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

The company uses derivative financial instruments as part of an overall strategy to manage market risk. The company uses forward, futures, swap and option contracts to hedge existing or future exposure to changes in interest rates and commodity prices. The company does not enter into these derivative financial instruments for trading or speculative purposes. If actual market conditions are less favorable than those anticipated, raw material prices could increase significantly, adversely affecting the margins from the sale of our products.

**COMMODITY PRICE RISK**

The company enters into commodity forward, futures and option contracts and swap agreements for wheat and, to a lesser extent, other commodities in an effort to provide a predictable and consistent commodity price and thereby reduce the impact of market volatility in its raw material and packaging prices. As of April 21, 2012, the company's hedge portfolio contained commodity derivatives with a fair value of \$(9.5) million. Of this fair value, \$(5.6) million is based on quoted market prices and \$(3.9) million is based on models and other valuation methods. Approximately \$(8.2) million, \$(0.9) million, \$(0.1) million, \$(0.1) million and \$(0.1) million of this fair value relates to instruments that will be utilized in fiscal 2012 through 2016, respectively.

A sensitivity analysis has been prepared to quantify the company's potential exposure to commodity price risk with respect to the derivative portfolio. Based on the company's derivative portfolio as of April 21, 2012, a hypothetical ten percent increase (decrease) in commodity prices would increase (decrease) the fair value of the derivative portfolio by \$9.5 million. The analysis disregards changes in the exposures inherent in the underlying hedged items; however, the company expects that any increase (decrease) in fair value of the portfolio would be substantially offset by increases (decreases) in raw material and packaging prices.

**INTEREST RATE RISK**

The company entered into a treasury rate lock on March 28, 2012 to fix the interest rate for the ten-year 4.375% Senior 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. Because the treasury rate lock was exited on March 29, 2012, there was no fair value as of April 21, 2012.

The company entered into interest rate swaps with notional amounts of \$85.0 million, and \$65.0 million, respectively, to fix the interest rate on the \$150.0 million term loan secured on August 1, 2008 to fund the acquisitions of ButterKrust Bakery and Holsum Bakery, Inc. As of April 21, 2012, the fair value of these interest rate swaps was \$(2.6) million. The current notional amount of the swaps for the amortizing loan is \$82.5 million. All of this fair value is based on valuation models and \$(1.8) million and \$(0.8) million of this fair value is related to instruments expiring in 2012 and 2013, respectively.

A sensitivity analysis has been prepared to quantify the company's potential exposure to interest rate risk with respect to the interest rate swaps. As of April 21, 2012, a hypothetical ten percent increase (decrease) in interest rates would increase (decrease) the fair value of the interest rate swap by \$3.4 million. The analysis disregards changes in the exposures inherent in the underlying debt; however, the company expects that any increase (decrease) in payments under the interest rate swap would be substantially offset by increases (decreases) in interest expense.

**ITEM 4. CONTROLS AND PROCEDURES****Management's Evaluation of Disclosure Controls and Procedures**

We have established and maintain a system of disclosure controls and procedures that are designed to ensure that material information relating to the company, which is required to be timely disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), is accumulated and communicated to management in a timely fashion and is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) was performed as of the end of the period covered by this quarterly report. This evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Accounting Officer (CAO). Based upon that evaluation, our CEO, CFO and CAO have concluded that these disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

In making its assessment of internal control over financial reporting as of April 21, 2012, management has excluded Tasty because it was acquired by the company in a purchase business combination in May 2011. Tasty's revenues for the sixteen weeks ended April 21, 2012 of \$63.4 million represents approximately 7.1% of our consolidated revenue. Tasty's assets, including intangible assets, represent approximately 12.1% of

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our consolidated assets at April 21, 2012. We will include Tasty in our second quarter assessment of internal control over financial reporting.

**Table of Contents****Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter ended April 21, 2012 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

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.

On July 23, 2008, a wholly-owned subsidiary of the company filed a lawsuit against Hostess Brands, Inc. (formerly Interstate Bakeries Corporation) in the United States District Court for the Northern District of Georgia. The complaint alleges that Hostess is infringing upon Flowers' *Nature's Own* trademarks by using or intending to use the *Nature's Pride* trademark. Flowers asserts that Hostess' sale or intended sale of baked goods under the *Nature's Pride* trademark is likely to cause confusion with, and likely to dilute the distinctiveness of, the *Nature's Own* mark and constitutes unfair competition and deceptive trade practices. Flowers is seeking actual damages, an accounting of Hostess' profits from its sales of *Nature's Pride* products, and injunctive relief. Flowers sought summary judgment for its claims, which was denied by the court. On January 11, 2012, Hostess filed a voluntary petition for relief in the United States Bankruptcy Court for the Southern District of New York under Chapter 11, Title 11, United States Code. The bankruptcy filing automatically stayed the trademark lawsuit.

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 is currently in substantial compliance with all material environmental regulations affecting the company and its properties.

**ITEM 1A. RISK FACTORS**

Please refer to Part I, Item 1A., *Risk Factors*, in the company's Form 10-K for the year ended December 31, 2011 for information regarding factors that could affect the company's results of operations, financial condition and liquidity. There have been no changes to our risk factors during the first quarter of fiscal 2012.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Our Board of Directors has approved a plan that authorizes share repurchases of up to 45.0 million shares of the company's common stock. Under the plan, the company may repurchase its common stock in open market or privately negotiated transactions at such times and at such prices as determined to be in the company's best interest. These purchases may be commenced or suspended without prior notice depending on then-existing business or market conditions and other factors. The following chart sets forth the amounts of our common stock purchased by the company during the first quarter of fiscal 2012 under the stock repurchase plan.

| Period | Total Number of Shares Purchased | Weighted Average Price Per Share | Total Number of Shares                           | Maximum Number   |
|--------|----------------------------------|----------------------------------|--|--|
|        |                                  |                                  | Purchased as Part of Publicly Announced Programs | of Shares that May Yet Be Purchased Under the Plan or Programs |
|        |                                  |                                  |  |  |

(Amounts in thousands,

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|                   |                   | except price data) |                 |           |
|-------------------|-------------------|--------------------|-----------------|-----------|
| January 1, 2012   | January 28, 2012  |                    |                 | 7,199     |
| January 29, 2012  | February 25, 2012 | 71                 | \$ 19.14        | 71        |
| February 26, 2012 | March 24, 2012    |                    |                 | 7,128     |
| March 25, 2012    | April 21, 2012    |                    |                 | 7,128     |
| <b>Total</b>      |                   | <b>71</b>          | <b>\$ 19.14</b> | <b>71</b> |

**ITEM 6. EXHIBITS**

Exhibits filed as part of this report are listed in the Exhibit Index attached hereto.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FLOWERS FOODS, INC.

By: /s/ GEORGE E. DEESE  
Name: George E. Deese  
Title: *Chairman of the Board and  
Chief Executive Officer*

By: /s/ R. STEVE KINSEY  
Name: R. Steve Kinsey  
Title: *Executive Vice President and  
Chief Financial Officer*

By: /s/ KARYL H. LAUDER  
Name: Karyl H. Lauder  
Title: *Senior Vice President and  
Chief Accounting Officer*

Date: May 24, 2012

**Table of Contents****EXHIBIT INDEX****Exhibit**

| <b>No</b> | <b>Name of Exhibit</b>  |
|-----------|---|
| 2.1       | Distribution Agreement by and between Flowers Industries, Inc. and Flowers Foods, Inc., dated as of October 26, 2000 (Incorporated by reference to Flowers Foods Registration Statement on Form 10, dated December 1, 2000, File No. 1-16247).  |
| 2.2       | Amendment No. 1 to Distribution Agreement, dated as of March 12, 2001, between Flowers Industries, Inc. and Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).  |
| 3.1       | Restated Articles of Incorporation of Flowers Foods, Inc. as amended on May 30, 2008 (Incorporated by reference to Flowers Foods Quarterly Report on Form 10-Q, dated June 4, 2009, File No. 1-16247).  |
| 3.2       | Amended and Restated Bylaws of Flowers Foods, Inc., as amended and restated on November 14, 2008 (incorporated by reference to Flowers Foods Current Report on Form 8-K dated November 18, 2008, File No. 1-16247).   |
| 4.1       | Share Certificate of Common Stock of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated February 29, 2012, File No. 1-16247).  |
| 4.2       | Indenture, dated as of April 3, 2012, between Flowers Foods, Inc. and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Flowers Foods Current Report on Form 8-K, dated April 3, 2012, File No. 1-16247).  |
| 4.3       | Form of 4.375% Senior Notes due 2022 (Incorporated by reference to Flowers Foods Current Report on Form 8-K, dated April 3, 2012, File No. 1-16247).  |
| 10.1+     | Flowers Foods, Inc. Retirement Plan No. 1, as amended and restated effective March 26, 2001 (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).  |
| 10.2+     | Flowers Foods, Inc. 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009 (incorporated by reference to Flowers Foods Proxy Statement on Schedule 14A, dated April 24, 2009, File No. 1-16247).   |
| 10.3+     | Flowers Foods, Inc. Stock Appreciation Rights Plan (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 29, 2002, File No. 1-16247).   |
| 10.4+     | Flowers Foods, Inc. Annual Executive Bonus Plan (Incorporated by reference to Flowers Foods Proxy Statement on Schedule 14A, dated April 24, 2009, File No. 1-16247).   |
| 10.5+     | Flowers Foods, Inc. Supplemental Executive Retirement Plan (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 29, 2002, File No. 1-16247).   |
| 10.6+     | Form of Indemnification Agreement, by and between Flowers Foods, Inc., certain executive officers and the directors of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 28, 2003, File No. 1-16247).   |
| 10.7+     | Form of Continuation of Employment Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 4, 2009, File No. 1016247).   |
| 10.8+     | Ninth Amendment to the Flowers Foods, Inc. Retirement Plan No. 1, dated November 7, 2005, as amended and restated effective as of March 26, 2001 (Incorporated by reference to Flowers Foods Quarterly Report on Form 10-Q dated November 17, 2005, File No. 1-16247).  |
| 10.9      | Amended and Restated Credit Agreement, dated as of May 20, 2011, by and among, Flowers Foods, Inc., the Lenders party thereto from time to time, Deutsche Bank AG, New York Branch, as administrative agent, Bank of America, N.A., as syndication agent, and Cooperative Centrale Raiffeisen-Boerenleen Bank, B.A., Rabobank International, New York Branch, Branch Banking & Trust Company and Regions Bank, as co-documentation agents (Incorporated by reference to Flowers Foods Current Report on Form 8-K dated May 26, 2011, File No. 1-16247). |
| 10.10     | Agreement and Plan of Merger, dated June 23, 2008, by and among, Flowers Foods, Inc., Peachtree Acquisition Co., LLC, Holsum Bakery, Inc., Lloyd Edward Eisele, Jr. and The Lloyd Edward Eisele, Jr. Revocable Trust (Incorporated by reference to Flowers Foods Current Report on Form 8-K/A dated June 25, 2008, File No. 1-16247).   |
| 10.11     | Credit Agreement, dated as of August 1, 2008, among Flowers Foods, Inc., the Lenders Party thereto from time to time, Bank of America N.A., Cooperative Centrale Raiffeisen-Boerenleen Bank, B.A., Rabobank International, New York Branch, and Branch Banking & Trust Company as co-documentation agents, SunTrust Bank, as syndication agent, and Deutsche Bank AG, New York Branch, as administrative agent (Incorporated by reference to Flowers Foods Current Report on Form 8-K dated August 6, 2008, File No. 1-16247).                          |

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| <b>Exhibit</b> |  |
|----------------|--|
| <b>No</b>      | <b>Name of Exhibit</b>   |
| 10.12          | First Amendment to the Credit Agreement, dated May 20, 2011, among Flowers Foods, Inc., the lenders party to the Credit Agreement and Deutsche Bank AG, New York Branch, as administrative agent (Incorporated by reference to Flowers Foods Current Report on Form 8-K dated May 26, 2011, File No. 1-16247). |
| 10.13+         | Form of 2009 Nonqualified Stock Option Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 4, 2009, File No. 1-16247).  |
| 10.14+         | Form of 2010 Restricted Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 3, 2010, File No. 1-16247).   |
| 10.15+         | Form of 2010 Nonqualified Stock Option Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 3, 2010, File No. 1-16247).  |
| 10.16+         | Form of 2010 Deferred Shares Agreement, by and between Flowers Foods, Inc. and certain members of the Board of Directors of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated February 23, 2011, File No. 1-16247).   |
| 10.17+         | Form of 2011 Restricted Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated February 23, 2011, File No. 1-16247).   |
| 10.18+         | Form of 2011 Nonqualified Stock Option Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated February 23, 2011, File No. 1-16247).  |
| 21             | Subsidiaries of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated February 29, 2012, File No. 1-16247).   |
| *31.1          | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| *31.2          | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| *31.3          | Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| *32            | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by George E. Deese, Chief Executive Officer, R. Steve Kinsey, Chief Financial Officer and Karyl H. Lauder, Chief Accounting Officer for the Quarter Ended April 21, 2012.              |
| *101.INS       | XBRL Instance Document.  |
| *101.SCH       | XBRL Taxonomy Extension Schema Linkbase.   |
| *101.CAL       | XBRL Taxonomy Extension Calculation Linkbase.  |
| *101.DEF       | XBRL Taxonomy Extension Definition Linkbase.   |
| *101.LAB       | XBRL Taxonomy Extension Label Linkbase.  |
| *101.PRE       | XBRL Taxonomy Extension Presentation Linkbase.   |

\* Filed herewith

+ Management contract or compensatory plan or arrangement