

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

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended July 16, 2011

OR

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

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

Commission file number 1-16247

**FLOWERS FOODS, INC.**

(Exact name of registrant as specified in its charter)

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

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

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

**31757**  
(Zip Code)

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

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

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

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

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

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

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

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



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### **Forward-Looking Statements**

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

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

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

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

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

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

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

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

our ability to implement new technology as required;

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

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

consolidation within the baking industry;

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

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

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

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

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

(Amounts in thousands except share data)

(Unaudited)

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

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

(See Accompanying Notes to Condensed Consolidated Financial Statements)



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

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

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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

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

(See Accompanying Notes to Condensed Consolidated Financial Statements)



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

(Amounts in thousands)

(Unaudited)

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

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

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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

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

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

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

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

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

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

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

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

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

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

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

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

**3. COMPREHENSIVE INCOME (LOSS)**

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

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

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

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

**4. ACQUISITION**

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





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

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

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

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

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

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

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

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

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

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

**5. GOODWILL AND OTHER INTANGIBLES**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**7. DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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

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

**COMMODITY PRICE RISK**

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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| Derivatives in          | Amount of Gain or (Loss)         |                  | Location of Gain or (Loss)  | Amount of Gain or (Loss) Reclassified |                   |
|-------------------------|----------------------------------|------------------|-----------------------------|---------------------------------------|-------------------|
|                         | Recognized in OCI on             |                  | Reclassified from AOCI into | from Accumulated OCI into Income      |                   |
|                         | Derivative (Effective            |                  |                             | (Effective Portion)                   |                   |
| Cash Flow Hedge         | Portion)                         |                  | Income                      | For the twenty-eight weeks            |                   |
| Relationships           | For the twenty-eight weeks ended |                  | (Effective Portion)         | ended                                 |                   |
|                         | July 16,                         | July 17,         |                             | July 16, 2011                         | July 17,          |
|                         | 2011                             | 2010             |                             |                                       | 2010              |
| Interest rate contracts | \$ (242)                         | \$ (2,709)       | Interest expense (income)   | \$ 1,181                              | \$ (2,857)        |
| Commodity contracts     | (8,565)                          | 30,384           | Production costs(1)         | (22,213)                              | (5,212)           |
| <b>Total</b>            | <b>\$ (8,807)</b>                | <b>\$ 27,675</b> |                             | <b>\$ (21,032)</b>                    | <b>\$ (8,069)</b> |

1. Included in Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately). 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 over the next three years are as follows (amounts in millions and net of tax) at July 16, 2011:

|                  | Commodity price<br>risk<br>derivatives | Interest rate risk<br>derivatives | Totals          |
|------------------|--|-----------------------------------|-----------------|
| Closed contracts | \$ 4.8                                 | \$ 0.1                            | \$ 4.9          |
| Expiring in 2011 | (6.7)                                  | (1.0)                             | (7.7)           |
| Expiring in 2012 | (1.0)                                  | (1.7)                             | (2.7)           |
| Expiring in 2013 |  | (0.4)                             | (0.4)           |
| <b>Total</b>     | <b>\$ (2.9)</b>                        | <b>\$ (3.0)</b>                   | <b>\$ (5.9)</b> |

As of July 16, 2011, the company had the following outstanding financial contracts that were entered to hedge commodity and interest rate risk (amounts in millions):

|                         | Notional amount |
|-------------------------|-----------------|
| Interest rate contracts | \$ 103.1        |
| Wheat contracts         | 138.6           |
| Soybean Oil contracts   | 19.4            |
| Natural gas contracts   | 9.3             |
| <b>Total</b>            | <b>\$ 270.4</b> |

The interest rate contracts have multiple settlements to match the amortization of the term loan. The notional amount of \$103.1 million represents the current settlement notional amount. Note 8, *Debt and Other Obligations*, below provides details on the term loan. The company's derivative instruments contain no credit-risk-related contingent features at July 16, 2011.

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

Long-term debt and capital leases consisted of the following at July 16, 2011 and January 1, 2011 (amounts in thousands):

|  | JULY 16, 2011     | JANUARY 1, 2011  |
|--|-------------------|------------------|
| Unsecured credit facility                      | \$ 204,000        | \$               |
| Unsecured term loan                            | 103,125           | 114,375          |
| Capital lease obligations                      | 9,610             | 10,541           |
| Other notes payable                            | 2,118             | 2,386            |
|  | 318,853           | 127,302          |
| Less current maturities                        | 31,682            | 28,432           |
| <b>Total long-term debt and capital leases</b> | <b>\$ 287,171</b> | <b>\$ 98,870</b> |

On May 20, 2011, the company further amended and restated its credit facility (the new credit facility), which had been 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.

Interest on the new credit facility 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 \$2.1 million in connection with the amendment of the credit facility, which, in addition to the remaining balance of the original \$0.9 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 \$204.0 million in outstanding borrowings under the new credit facility at July 16, 2011, and no outstanding borrowings under the former credit facility at January 1, 2011, approximately \$166.7 million of which was utilized for the Tasty acquisition.

The former credit facility was a five-year, \$250.0 million senior unsecured revolving loan facility, which would have expired October 5, 2012. Under the former credit facility, interest was due quarterly in arrears on any outstanding borrowings at a customary Eurodollar rate or the base rate plus the applicable margin. The underlying rate was defined as rates offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranged from 0.0% to 0.30% for base rate loans and from 0.40% to 1.275% for Eurodollar loans. In addition, a facility fee ranging from 0.10% to 0.35% was due quarterly on all commitments under the credit facility. Both the interest margin and the facility fee were based on the company's leverage ratio. Financial covenants and other restrictions under the former credit facility were similar to those under the new credit facility, with the exception of the maximum leverage ratio.

As of July 16, 2011 and January 1, 2011, the company was in compliance with all restrictive financial covenants under its former and new credit facilities.

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. 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 can meet presently foreseeable financial requirements. As of July 16, 2011 and January 1, 2011, the company was in compliance with all restrictive financial covenants under the term loan.

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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

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loans and is based on the company's leverage ratio. Principal payments began on December 31, 2008 and are due quarterly under the term loan 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 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.

Book overdrafts occur when checks have been issued but have not been presented to the bank for payment. These bank accounts 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 book overdrafts is shown as a financing activity in our consolidated statements of cash flows. Book overdrafts are included in other current liabilities on our consolidated balance sheets. As of July 16, 2011 and January 1, 2011, the book overdraft balance was \$14.9 million and \$9.7 million, respectively.

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**Table of Contents****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. The VIE has collateral that is sufficient to meet its capital lease and other debt obligations and the owner of the VIE personally guarantees the obligations of the VIE. The VIE's creditors have no recourse against the general credit of the company.

The company has no exposure to gains or losses of the VIE in reporting its net income. In addition, the company does not have explicit or implied power over any of the significant activities to operate the VIE. The primary beneficiary of the VIE realizes the economic benefits and losses incurred and has the power to direct most of the significant activities. The VIE is permitted to pass along increases in their costs, with company approval, at a capped increase of 2% per year. The company and the VIE also agree on a rebate paid or credited to the company depending on the profitability of the VIE in the preceding year. We do not guarantee the VIE's specific returns or performance benchmarks. In addition, if a manufacturing facility closes or there is a loss of market share causing the VIE to have to move their equipment the company will make an effort to move the equipment to another manufacturing facility. If the company is unable to do so, we will reimburse the VIE for any losses incurred in the disposal of the equipment and will pay the cost to transfer the equipment. The company's maximum loss exposure for the truck disposals is the difference in the estimated fair value of the trucks from the book value.

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 July 16, 2011 and January 1, 2011, there was \$7.6 million and \$9.7 million, respectively, in net property, plant and equipment and capital lease obligations associated with the right to use leases.

**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. (Hostess) (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. We expect this case to proceed to trial in late 2011 or 2012.

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 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.

**Table of Contents****11. EARNINGS PER SHARE**

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

The following is a reconciliation of net income and weighted average shares for calculating basic and diluted earnings per common share for the twelve and twenty-eight weeks ended July 16, 2011 and July 17, 2010 (amounts and shares in thousands, except per share data):

|   | FOR THE TWELVE WEEKS ENDED |               | FOR THE TWENTY-EIGHT WEEKS ENDED |               |
|---|----------------------------|---------------|----------------------------------|---------------|
|   | JULY 16, 2011              | JULY 17, 2010 | JULY 16, 2011                    | JULY 17, 2010 |
| Net income  | \$ 28,210                  | \$ 33,756     | \$ 69,371                        | \$ 74,443     |
| Dividends on restricted shares not expected to vest*  |                            |               |                                  |               |
| Net income attributable to common and participating shareholders  | \$ 28,210                  | \$ 33,756     | \$ 69,371                        | \$ 74,443     |
| <b>Basic Earnings Per Common Share:</b>   |                            |               |                                  |               |
| Weighted average shares outstanding for common stock  | 135,299                    | 137,098       | 135,202                          | 136,971       |
| Weighted average shares outstanding for participating securities  |                            | 306           | 82                               | 359           |
| Basic weighted average shares outstanding for common stock  | 135,299                    | 137,404       | 135,284                          | 137,330       |
| Basic earnings per common share   | \$ 0.21                    | \$ 0.25       | \$ 0.51                          | \$ 0.54       |
| <b>Diluted Earnings Per Common Share:</b>   |                            |               |                                  |               |
| Basic weighted average shares outstanding for common stock  | 135,299                    | 137,404       | 135,284                          | 137,330       |
| Add: Shares of common stock assumed issued upon exercise of stock options and vesting of restricted stock | 1,926                      | 1,134         | 1,450                            | 1,144         |
| Diluted weighted average shares outstanding for common stock  | 137,225                    | 138,538       | 136,734                          | 138,474       |
| Diluted earnings per common share   | \$ 0.21                    | \$ 0.24       | \$ 0.51                          | \$ 0.54       |

\* The company expected all restricted share awards outstanding at July 17, 2010 to vest.

The following shares were not included in the computation of diluted earnings per share for the twelve and twenty-eight weeks ended July 16, 2011 and July 17, 2010 because their effect would have been anti-dilutive (shares in thousands):

|  | Common shares |
|--|---------------|
| For the twelve weeks ended July 16, 2011 |               |
| For the twelve weeks ended July 17, 2010 | 1,130         |



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|  |       |
|--|-------|
| For the twenty-eight weeks ended July 16, 2011 | 1,654 |
| For the twenty-eight weeks ended July 17, 2010 | 2,118 |

### 12. STOCK BASED COMPENSATION

Our 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009, ( EPIP ) was approved by our shareholders and authorizes the compensation committee of the Board of Directors to make a variety of stock-based awards while selecting the form that is most appropriate for the company and eligible recipients. Our 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.

**Table of Contents***Non-Qualified Stock Options*

The following non-qualified stock options ( NQSO ) 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> | <b>2/9/2009</b> |
|---|------------------|-----------------|-----------------|
| Shares granted                              | 2,142            | 1,703           | 1,490           |
| Exercise price                              | 16.31            | 16.67           | 15.89           |
| Vesting date                                | 2/10/2014        | 2/9/2013        | 2/9/2012        |
| Fair value per share (\$)                   | 3.47             | 3.69            | 3.91            |
| Dividend yield (%) <sup>(1)</sup>           | 3.00             | 3.00            | 2.20            |
| Expected volatility (%) <sup>(2)</sup>      | 29.20            | 30.60           | 31.80           |
| Risk-free interest rate (%) <sup>(3)</sup>  | 2.44             | 2.35            | 2.00            |
| Expected option life (years) <sup>(4)</sup> | 5.00             | 5.00            | 5.00            |
| Outstanding at July 16, 2011                | 2,139            | 1,675           | 1,468           |

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 2009, 2010, and 2011 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 summary of the shares granted and outstanding for NQSO activity for the twenty-eight weeks ended July 16, 2011 pursuant to the EPIP is set forth below (amounts in thousands, except price data):

|                                | <b>NQSO</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|--------------------------------|-------------|--|--|--|
| Outstanding at January 1, 2011 | 6,547       | \$ 14.66                                       |  |  |
| Granted                        | 2,142       | \$ 16.31                                       |  |  |
| Exercised                      | (1,135)     | \$ 10.99                                       |  |  |
| Forfeited                      | (33)        | \$ 16.33                                       |  |  |
| Outstanding at July 16, 2011   | 7,521       | \$ 15.68                                       | 4.84   | \$ 54,764                                |
| Exercisable at July 16, 2011   | 2,253       | \$ 14.21                                       | 2.84   | \$ 19,716                                |

As of July 16, 2011, there was \$7.8 million of total unrecognized compensation expense related to outstanding NQSO. This cost is expected to be recognized on a straight-line basis over a weighted-average period of 2.0 years.

The cash received, the windfall tax benefits, and intrinsic value from NQSO exercises for the twenty-eight weeks ended July 16, 2011 and July 17, 2010 were as follows (amounts in thousands):

|                              | <b>July 16, 2011</b> | <b>July 17, 2010</b> |
|------------------------------|----------------------|----------------------|
| Cash received from exercises | \$ 12,471            | \$ 4,495             |

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|                                   |    |        |    |       |
|-----------------------------------|----|--------|----|-------|
| Cash tax windfall, net            | \$ | 3,030  | \$ | 570   |
| Intrinsic value of NQSO exercised | \$ | 11,494 | \$ | 2,796 |

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

**Table of Contents***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. Furthermore, each grant of performance-contingent restricted stock will be adjusted as set forth in the market condition described below:

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 2009, during the applicable measurement period, the Company TSR rank was less than the 50th percentile and the grant was reduced by 20% of the award or 60,420 common shares. The total amount of shares that were issued to plan participants was 241,680. Because the company achieved the ROI Target the total cost for the award was not reversed for the portion of shares that did not vest.

The performance-contingent restricted stock generally vests immediately if the grantee dies or becomes disabled. However, upon 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 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 performance-contingent restricted stock awards have been granted under the EPIP since fiscal 2009 (amounts in thousands, except price data):

| Grant date               | 2/10/2011 | 2/9/2010 | 2/9/2009 |
|--------------------------|-----------|----------|----------|
| Shares granted           | 324       | 268      | 306      |
| Approximate vesting date | 2/10/2013 | 2/9/2012 | 2/9/2011 |
| Fair value per share     | \$ 15.93  | \$ 17.59 | \$ 16.64 |

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A summary of the status of the company's nonvested shares for performance-contingent restricted stock as of July 16, 2011, and changes during the twenty-eight weeks ended July 16, 2011, is presented below (amounts in thousands, except price data):

|                              | Shares | Weighted<br>Average<br>Grant Date<br>Fair Value | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Current<br>Intrinsic<br>Value |
|------------------------------|--------|---|---|--|
| Nonvested at January 1, 2011 | 568    | \$ 17.08  |   |  |
| Granted                      | 324    | \$ 15.93  |   |  |
| Vested                       | (242)  | \$ 16.64  |   |  |
| Canceled                     | (60)   | \$ 16.64  |   |  |
| Forfeited                    | (7)    | \$ 16.96  |   |  |
| Nonvested at July 16, 2011   | 583    | \$ 16.67  | 1.26  | \$ 13,396                                  |

As of July 16, 2011, there was \$5.3 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 1.3 years. The total fair value of shares vested during the twenty-eight weeks ended July 16, 2011 was \$3.4 million.

*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 twenty-eight weeks ending July 16, 2011, an aggregate of 25,440 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 twenty-eight weeks ending July 16, 2011, a total of 32,025 deferred shares were exercised for retainer conversions.

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 first and second quarter of fiscal 2011 a total of 52,732 shares were exercised for deferred shares issued under the fiscal 2010 grant.

The deferred stock activity for the twenty-eight weeks ended July 16, 2011 is set forth below (amounts in thousands, except price data):

|                                | Shares | Weighted<br>Average<br>Grant Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|--------|------------------------------------|--|---------------------------------|
| Outstanding at January 1, 2011 | 240    | \$ 15.11                           |  |                                 |
| Deferred stock issued          | 76     | \$ 19.35                           |  |                                 |
| Deferred stock exercised       | (85)   | \$ 15.31                           |  |                                 |
| Outstanding at July 16, 2011   | 231    | \$ 16.43                           | 0.41   | \$ 5,305                        |

*Stock Appreciation Rights*

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Prior to 2007, the company allowed non-employee directors to convert their retainers and committee chairman fees into stock appreciation rights ( 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 fair value of the rights at July 16, 2011 ranged from \$10.68 to \$21.61. The following assumptions were used to determine fair value of the rights discussed above using the *Black-Scholes* option-pricing model at July 17, 2010: dividend yield 3.0%; expected volatility 29.0%; risk-free interest rate 1.47% and expected life of 0.05 years to 2.45 years.

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The rights activity for the twenty-eight weeks ended July 16, 2011 is set forth below (amounts in thousands except price data):

|                                | Rights | Weighted<br>Average<br>Grant Date<br>Fair Value | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Current<br>Intrinsic<br>Value |
|--------------------------------|--------|---|---|--|
| Outstanding at January 1, 2011 | 348    | \$ 11.76  |   |  |
| Rights exercised               | (161)  | \$ 12.62  |   |  |
| Rights forfeited               |        |   |   |  |
| Outstanding at July 16, 2011   | 187    | \$ 11.02  | 2.94  | \$ 2,775                                   |

The following table summarizes the company's stock based compensation expense (income) for the twelve and twenty-eight week periods ended July 16, 2011 and July 17, 2010, respectively (amounts in thousands):

|                                | FOR THE TWELVE WEEKS ENDED |                  | FOR THE TWENTY-EIGHT WEEKS ENDED |               |
|--------------------------------|----------------------------|------------------|----------------------------------|---------------|
|                                | JULY 16,<br>2011           | JULY 17,<br>2010 | JULY 16, 2011                    | JULY 17, 2010 |
| Stock options                  | \$ 1,140                   | \$ 1,544         | \$ 4,682                         | \$ 3,954      |
| Restricted stock               | 1,117                      | 1,123            | 2,549                            | 2,669         |
| Stock appreciation rights      | 830                        | (259)            | 1,344                            | 108           |
| Deferred stock                 | 370                        | 321              | 812                              | 751           |
| Total stock based compensation | \$ 3,457                   | \$ 2,729         | \$ 9,387                         | \$ 7,482      |

**13. POST-RETIREMENT PLANS**

The following summarizes the company's balance sheet related pension and other postretirement benefit plan accounts at July 16, 2011 as compared to accounts at January 1, 2011 (amounts in thousands):

|                                      | AS OF         |                 |
|--------------------------------------|---------------|-----------------|
|                                      | JULY 16, 2011 | JANUARY 1, 2011 |
| Current benefit liability            | \$ 1,460      | \$ 1,011        |
| Noncurrent benefit liability         | \$ 99,787     | \$ 76,086       |
| Accumulated other comprehensive loss | \$ 56,814     | \$ 57,614       |

**Defined Benefit Plans**

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 required by the Employee Retirement Income Security Act of 1974 (ERISA). As of April 24, 2010, 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 covered 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 union employees. During the twenty-eight weeks ended July 16, 2011 the company contributed \$3.3 million to company pension plans, of which \$2.3 million related to a plan assumed in the Tasty acquisition.

On May 20, 2011, with the acquisition of Tasty, the company recorded assumed liabilities for the Tasty unfunded obligation for their defined benefit plans. The total unfunded obligations were \$23.8 million at the acquisition date.

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

|   | FOR THE TWELVE WEEKS ENDED |               | FOR THE TWENTY-EIGHT WEEKS ENDED |                  |
|---|----------------------------|---------------|----------------------------------|------------------|
|   | JULY 16, 2011              | JULY 17, 2010 | JULY 16,<br>2011                 | JULY 17,<br>2010 |
| Service cost                                    | \$ 110                     | \$ 89         | \$ 257                           | \$ 209           |
| Interest cost                                   | 4,607                      | 4,308         | 10,224                           | 10,051           |
| Expected return on plan assets                  | (5,474)                    | (4,769)       | (12,130)                         | (11,127)         |
| Amortization of net loss                        | 629                        | 503           | 1,467                            | 1,173            |
| <b>Total net periodic benefit (income) cost</b> | <b>\$ (128)</b>            | <b>\$ 131</b> | <b>\$ (182)</b>                  | <b>\$ 306</b>    |

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



**Table of Contents****Post-retirement Benefit Plan**

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

On May 20, 2011, with the acquisition of Tasty, the company recorded assumed liabilities for the Tasty unfunded obligation for their Supplemental Executive Retirement Plans. The total unfunded obligations were \$5.2 million at the acquisition date.

The net periodic postretirement benefit cost for the company includes the following components (amounts in thousands):

|   | FOR THE TWELVE WEEKS ENDED |                  | FOR THE TWENTY-EIGHT WEEKS ENDED |                  |
|---|----------------------------|------------------|----------------------------------|------------------|
|   | JULY<br>16, 2011           | JULY<br>17, 2010 | JULY 16,<br>2011                 | JULY 17,<br>2010 |
| Service cost                                | \$ 97                      | \$ 143           | \$ 229                           | \$ 340           |
| Interest cost                               | 182                        | 200              | 393                              | 471              |
| Amortization of prior service (credit) cost | (59)                       | (62)             | (139)                            | (94)             |
| Amortization of net (gain) loss             | (11)                       | (19)             | (26)                             | (31)             |
| <b>Total net periodic benefit cost</b>      | <b>\$ 209</b>              | <b>\$ 262</b>    | <b>\$ 457</b>                    | <b>\$ 686</b>    |

**401(k) Retirement Savings Plan**

The Flowers Foods 401(k) Retirement Savings Plan (the Plan) covers substantially all of the company's employees who have completed certain service requirements. The cost and contributions for those employees who also participate in the defined benefit pension plan is 25% of the first \$400 contributed by the employee. Prior to January 1, 2006, the costs and contributions for employees who do not participate in the defined benefit pension plan was 2% of compensation and 50% of the employees' contributions, up to 6% of compensation. Effective January 1, 2006, the costs and contributions for employees who do not participate in the defined benefit pension plan increased to 3% of compensation and 50% of the employees' contributions, up to 6% of compensation. During the twelve weeks ended July 16, 2011 and July 17, 2010, the total cost and contributions were \$4.1 million and \$3.9 million, respectively. During the twenty-eight weeks ended July 16, 2011 and July 17, 2010, the total cost and contributions were \$10.1 million and \$9.4 million, respectively.

The company also has a smaller 401(k) Plan associated with an acquisition that will be merged into the Flowers Foods 401(k) Retirement Savings Plan later this year. A 401(k) Plan was assumed with the Tasty acquisition and will be merged when we receive final determination letters.

**14. INCOME TAXES**

The company's effective tax rate for the twelve and twenty-eight weeks ended July 16, 2011 was 35.5% and 35.2% respectively. The rate for the current quarter is slightly higher than fiscal the first quarter's rate of 35.0% due to non-deductible transaction costs associated with Tasty. 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. The Tasty acquisition affected the deferred tax assets during the twelve and twenty-eight weeks ended July 16, 2011. Please see Note 4, *Acquisition*, for additional information.

During the twelve and twenty-eight weeks ended July 16, 2011, the company's only material activity with respect to its uncertain tax positions was an increase of \$4.9 million due to the Tasty acquisition. At this time, we do not anticipate any other significant changes to the amount of gross unrecognized tax benefits over the next twelve months.

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

DSD produces fresh and frozen packaged bread, rolls and snack cakes and warehouse delivery produces frozen bread and rolls, 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 segment's core operating businesses. The Tasty acquisition, discussed in Note 4, *Acquisition*, is included in the DSD segment because Tasty uses the direct store delivery method for product distribution which satisfies the aggregation criteria with our other DSD segment entities. Information regarding the operations in these reportable segments is as follows (amounts in thousands):

|  | FOR THE TWELVE WEEKS ENDED |                  | FOR THE TWENTY-EIGHT WEEKS ENDED |               |
|--|----------------------------|------------------|----------------------------------|---------------|
|  | JULY 16,<br>2011           | JULY 17,<br>2010 | JULY 16, 2011                    | JULY 17, 2010 |
| <b>SALES:</b>                                      |                            |                  |                                  |               |
| DSD  | \$ 530,765                 | \$ 495,540       | \$ 1,184,996                     | \$ 1,149,318  |
| Warehouse delivery                                 | 142,346                    | 143,590          | 334,148                          | 328,535       |
| Eliminations: Sales from warehouse delivery to DSD | (24,330)                   | (25,793)         | (61,157)                         | (61,886)      |
| Sales from DSD to warehouse delivery               | (6,185)                    | (5,621)          | (13,566)                         | (13,225)      |
|  | \$ 642,596                 | \$ 607,716       | \$ 1,444,421                     | \$ 1,402,742  |
| <b>DEPRECIATION AND AMORTIZATION:</b>              |                            |                  |                                  |               |
| DSD  | \$ 16,167                  | \$ 15,463        | \$ 38,034                        | \$ 35,565     |
| Warehouse delivery                                 | 4,593                      | 4,533            | 10,649                           | 10,069        |
| Unallocated  | 138                        | 25               | 207                              | 24            |
|  | \$ 20,898                  | \$ 20,021        | \$ 48,890                        | \$ 45,658     |
| <b>INCOME FROM OPERATIONS:</b>                     |                            |                  |                                  |               |
| DSD  | \$ 51,339                  | \$ 47,787        | \$ 115,558                       | \$ 108,470    |
| Warehouse delivery                                 | 5,117                      | 11,841           | 16,448                           | 25,374        |
| Unallocated  | (13,345)                   | (8,392)          | (27,377)                         | (20,568)      |
|  | \$ 43,111                  | \$ 51,236        | \$ 104,629                       | \$ 113,276    |
| <b>NET INTEREST INCOME</b>                         | \$ 596                     | \$ 956           | \$ 2,358                         | \$ 2,087      |
| <b>INCOME BEFORE INCOME TAXES</b>                  | \$ 43,707                  | \$ 52,192        | \$ 106,987                       | \$ 115,363    |

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

|                      | For the twelve weeks ended July 16, 2011       |                    |            | For the twelve weeks ended July 17, 2010       |                    |            |
|----------------------|--|--------------------|------------|--|--------------------|------------|
|                      | DSD  | Warehouse delivery | Total      | DSD  | Warehouse delivery | Total      |
| Branded Retail       | \$ 314,315                                     | \$ 23,521          | \$ 337,836 | \$ 288,606                                     | \$ 24,675          | \$ 313,281 |
| Store Branded Retail | 91,560   | 29,294             | 120,854    | 81,239   | 25,404             | 106,643    |
| Non-retail and Other | 118,705  | 65,201             | 183,906    | 120,074  | 67,718             | 187,792    |
| Total                | \$ 524,580                                     | \$ 118,016         | \$ 642,596 | \$ 489,919                                     | \$ 117,797         | \$ 607,716 |
|                      | For the twenty-eight weeks ended July 16, 2011 |                    |            | For the twenty-eight weeks ended July 17, 2010 |                    |            |
|                      | DSD  | Total              |            | DSD  | Total              |            |

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|                      |              | Warehouse<br>delivery |              |              | Warehouse<br>delivery |              |
|----------------------|--------------|-----------------------|--------------|--------------|-----------------------|--------------|
| Branded Retail       | \$ 694,052   | \$ 51,427             | \$ 745,479   | \$ 667,057   | \$ 65,653             | \$ 732,710   |
| Store Branded Retail | 193,605      | 68,575                | 262,180      | 180,770      | 46,740                | 227,510      |
| Non-retail and Other | 283,773      | 152,989               | 436,762      | 288,266      | 154,256               | 442,522      |
| Total                | \$ 1,171,430 | \$ 272,991            | \$ 1,444,421 | \$ 1,136,093 | \$ 266,649            | \$ 1,402,742 |

**16. SUBSEQUENT EVENTS**

The company has evaluated subsequent events since July 16, 2011, the date of these financial statements. There were no material 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 twelve and twenty-eight week periods ended July 16, 2011 should be read in conjunction with the company's Annual Report on Form 10-K for the fiscal year ended January 1, 2011.

**OVERVIEW:**

Flowers Foods is one of the nation's leading producers and marketers of packaged bakery foods for retail and foodservice customers. The company produces breads, buns, rolls, tortillas, snack cakes and pastries that are distributed fresh to U.S. customers in the Southeast, Mid-Atlantic, Northeast and Southwest as well as select markets in California and Nevada and frozen to customers nationwide. Our businesses are organized into two reportable segments: DSD and warehouse delivery. The DSD segment focuses on the production and marketing of bakery products to U.S. customers in the Southeast, Mid-Atlantic, Northeast and Southwest as well as select markets in California and Nevada primarily through its DSD system. The warehouse delivery segment produces snack cakes for sale to co-pack, retail and vending customers nationwide as well as frozen bread, rolls and buns and tortillas for sale to retail and foodservice customers nationwide primarily through warehouse distribution.

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.

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

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

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

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. Since the middle of 2010, our sales have been negatively impacted by the competitive landscape and higher promotional activity within the baking industry. Sales for the quarter ended July 16, 2011 increased 5.7% from the quarter ended July 17, 2010. This increase was primarily due to positive pricing and mix shifts of 4.5% and the Tasty merger that affected sales by 3.3%, both of which were partially offset by declining volume of 2.1%. For the twenty-eight weeks ended July 17, 2011 sales increased 3.0% from the same period of fiscal 2010. The increase was primarily due to positive pricing and mix shifts of 3.2% and the Tasty merger which positively impacted sales 1.4%. These increases were partially offset by volume decreases of 1.6%.

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 enter into forward purchase agreements and derivative financial instruments to reduce the impact of such volatility in raw materials prices. Any decrease in the availability of these agreements and instruments could increase the price of these raw materials and significantly affect our earnings. Commodity costs increased during the second quarter of fiscal 2011 and we expect them to continue to rise during the remainder of the year.

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For the twelve weeks ended July 16, 2011, diluted net income per share was \$0.21 as compared to \$0.24 per share for the twelve weeks ended July 17, 2010, a 12.5% decrease. For the twelve weeks ended July 16, 2011, net income was \$28.2 million, an 16.4% decrease compared to \$33.8 million reported for the twelve weeks ended July 17, 2010.

For the twenty-eight weeks ended July 16, 2011, diluted net income per share was \$0.51 as compared to \$0.54 per share for the twenty-eight weeks ended July 17, 2010, a 5.6% decrease. For the twenty-eight weeks ended July 16, 2011, net income was \$69.4 million, a 6.8% decrease compared to \$74.4 million reported for the twenty-eight weeks ended July 17, 2010.

**CRITICAL ACCOUNTING POLICIES:**

Our financial statements are prepared in accordance with generally accepted accounting principles ( GAAP ). Our significant accounting policies are summarized in the company s Annual Report on Form 10-K for the fiscal year ended January 1, 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 January 1, 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 January 1, 2011.

**MATTERS AFFECTING ANALYSIS:**

*Credit facility.* On May 20, 2011, the company further 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.

*Tasty Baking Company ( Tasty ) acquisition.* On May 20, 2011, a wholly owned subsidiary of the company merged with Tasty. Tasty operates two bakeries in the Philadelphia, Pennsylvania area and serves customers primarily in the northeastern United States under the *TastyTake* snack brand. The results of Tasty s operations are included in the company s consolidated financial statements as of May 20, 2011 and are included in the company s DSD operating segment.

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

**RESULTS OF OPERATIONS:**

Results of operations, expressed as a percentage of sales and the dollar and percentage change from period to period, for the twelve week periods ended July 16, 2011 and July 17, 2010, are set forth below (dollars in thousands):

|  | July 16, 2011 | July 17, 2010 | For the twelve weeks ended           |                                      | Increase (Decrease) |     |
|--|---------------|---------------|--------------------------------------|--------------------------------------|---------------------|-----|
|  |               |               | Percentage of Sales<br>July 16, 2011 | Percentage of Sales<br>July 17, 2010 | Dollars             | %   |
| <b>Sales</b>   |               |               |                                      |                                      |                     |     |
| DSD  | \$ 524,580    | \$ 489,919    | 81.6                                 | 80.6                                 | \$ 34,661           | 7.1 |
| Warehouse delivery   | 118,016       | 117,797       | 18.4                                 | 19.4                                 | 219                 | 0.2 |
| Total  | \$ 642,596    | \$ 607,716    | 100.0                                | 100.0                                | \$ 34,880           | 5.7 |
| <b>Materials, supplies, labor and other production costs<br/>(exclusive of depreciation and amortization shown separately<br/>below)</b> |               |               |                                      |                                      |                     |     |
| DSD (1)  | \$ 251,435    | \$ 234,612    | 47.9                                 | 47.9                                 | \$ 16,823           | 7.2 |
| Warehouse delivery(1)  | 90,452        | 83,941        | 76.6                                 | 71.3                                 | 6,511               | 7.8 |

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|       |            |            |      |      |           |     |
|-------|------------|------------|------|------|-----------|-----|
| Total | \$ 341,887 | \$ 318,553 | 53.2 | 52.4 | \$ 23,334 | 7.3 |
|-------|------------|------------|------|------|-----------|-----|

**Table of Contents****Selling, distribution and administrative expenses**

|                       |                   |                   |             |             |                  |            |
|-----------------------|-------------------|-------------------|-------------|-------------|------------------|------------|
| DSD(1)                | \$ 205,639        | \$ 192,057        | 39.2        | 39.2        | \$ 13,582        | 7.1        |
| Warehouse delivery(1) | 17,854            | 17,482            | 15.1        | 14.8        | 372              | 2.1        |
| Corporate(2)          | 13,207            | 8,367             |             |             | 4,840            | 57.8       |
| <b>Total</b>          | <b>\$ 236,700</b> | <b>\$ 217,906</b> | <b>36.8</b> | <b>35.9</b> | <b>\$ 18,794</b> | <b>8.6</b> |

**Depreciation and amortization**

|                       |                  |                  |            |            |               |            |
|-----------------------|------------------|------------------|------------|------------|---------------|------------|
| DSD(1)                | \$ 16,167        | \$ 15,463        | 3.1        | 3.2        | \$ 704        | 4.6        |
| Warehouse delivery(1) | 4,593            | 4,533            | 3.9        | 3.8        | 60            | 1.3        |
| Corporate(2)          | 138              | 25               |            |            | 113           | NM         |
| <b>Total</b>          | <b>\$ 20,898</b> | <b>\$ 20,021</b> | <b>3.3</b> | <b>3.3</b> | <b>\$ 877</b> | <b>4.4</b> |

**Income from operations**

|                       |                  |                  |            |            |                   |               |
|-----------------------|------------------|------------------|------------|------------|-------------------|---------------|
| DSD(1)                | \$ 51,339        | \$ 47,787        | 9.8        | 9.8        | \$ 3,552          | 7.4           |
| Warehouse delivery(1) | 5,117            | 11,841           | 4.3        | 10.1       | (6,724)           | (56.8)        |
| Corporate(2)          | (13,345)         | (8,392)          |            |            | (4,953)           | (59.0)        |
| <b>Total</b>          | <b>\$ 43,111</b> | <b>\$ 51,236</b> | <b>6.7</b> | <b>8.4</b> | <b>\$ (8,125)</b> | <b>(15.9)</b> |

**Interest income, net**

|                             |        |        |     |     |          |        |
|-----------------------------|--------|--------|-----|-----|----------|--------|
| <b>Interest income, net</b> | \$ 596 | \$ 956 | 0.1 | 0.2 | \$ (360) | (37.7) |
|-----------------------------|--------|--------|-----|-----|----------|--------|

**Income taxes**

|                     |                  |                  |            |            |                   |               |
|---------------------|------------------|------------------|------------|------------|-------------------|---------------|
| <b>Income taxes</b> | \$ 15,497        | \$ 18,436        | 2.4        | 3.0        | \$ (2,939)        | (15.9)        |
| <b>Net income</b>   | <b>\$ 28,210</b> | <b>\$ 33,756</b> | <b>4.4</b> | <b>5.6</b> | <b>\$ (5,546)</b> | <b>(16.4)</b> |

1. As a percentage of revenue within the reporting segment.
2. The corporate segment has no revenues.

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Results of operations, expressed as a percentage of sales and the dollar and percentage change from period to period, for the twenty-eight week periods ended July 16, 2011 and July 17, 2010, are set forth below (dollars in thousands):

|  | July 16,<br>2011 | July 17,<br>2010 | For the twenty-eight weeks ended<br>Percentage of Sales |               | Increase (Decrease) |        |
|--|------------------|------------------|---|---------------|---------------------|--------|
|  |                  |                  | July 16, 2011   | July 17, 2010 | Dollars             | %      |
| <b>Sales</b>   |                  |                  |   |               |                     |        |
| DSD  | \$ 1,171,430     | \$ 1,136,093     | 81.1  | 81.0          | \$ 35,337           | 3.1    |
| Warehouse delivery   | 272,991          | 266,649          | 18.9  | 19.0          | 6,342               | 2.4    |
| Total  | \$ 1,444,421     | \$ 1,402,742     | 100.0   | 100.0         | \$ 41,679           | 3.0    |
| <b>Materials, supplies, labor and other production costs<br/>(exclusive of depreciation and amortization shown<br/>separately below)</b> |                  |                  |   |               |                     |        |
| DSD (1)  | \$ 550,078       | \$ 543,442       | 47.0  | 47.8          | \$ 6,636            | 1.2    |
| Warehouse delivery(1)  | 204,067          | 189,909          | 74.8  | 71.2          | 14,158              | 7.5    |
| Total  | \$ 754,145       | \$ 733,351       | 52.2  | 52.3          | \$ 20,794           | 2.8    |
| <b>Selling, distribution and administrative expenses</b>   |                  |                  |   |               |                     |        |
| DSD(1)   | \$ 467,760       | \$ 448,616       | 39.9  | 39.5          | \$ 19,144           | 4.3    |
| Warehouse delivery(1)  | 41,827           | 41,297           | 15.3  | 15.5          | 530                 | 1.3    |
| Corporate(2)   | 27,170           | 20,544           |   |               | 6,626               | 32.3   |
| Total  | \$ 536,757       | \$ 510,457       | 37.2  | 36.4          | \$ 26,300           | 5.2    |
| <b>Depreciation and amortization</b>   |                  |                  |   |               |                     |        |
| DSD(1)   | \$ 38,034        | \$ 35,565        | 3.2   | 3.1           | \$ 2,469            | 6.9    |
| Warehouse delivery(1)  | 10,649           | 10,069           | 3.9   | 3.8           | 580                 | 5.8    |
| Corporate(2)   | 207              | 24               |   |               | 183                 | NM     |
| Total  | \$ 48,890        | \$ 45,658        | 3.4   | 3.3           | \$ 3,232            | 7.1    |
| <b>Income from operations</b>  |                  |                  |   |               |                     |        |
| DSD(1)   | \$ 115,558       | \$ 108,470       | 9.9   | 9.5           | \$ 7,088            | 6.5    |
| Warehouse delivery(1)  | 16,448           | 25,374           | 6.0   | 9.5           | (8,926)             | (35.2) |
| Corporate(2)   | (27,377)         | (20,568)         |   |               | (6,809)             | (33.1) |
| Total  | \$ 104,629       | \$ 113,276       | 7.2   | 8.1           | \$ (8,647)          | (7.6)  |
| <b>Interest income, net</b>  |                  |                  |   |               |                     |        |
|  | \$ 2,358         | \$ 2,087         | 0.2   | 0.1           | \$ 271              | 13.0   |
| <b>Income taxes</b>  |                  |                  |   |               |                     |        |
|  | \$ 37,616        | \$ 40,920        | 2.6   | 2.9           | \$ (3,304)          | (8.1)  |
| <b>Net income</b>  |                  |                  |   |               |                     |        |
|  | \$ 69,371        | \$ 74,443        | 4.8   | 5.3           | \$ (5,072)          | (6.8)  |

1. As a percentage of revenue within the reporting segment.
2. The corporate segment has no revenues.





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

TWELVE WEEKS ENDED JULY 16, 2011 COMPARED TO TWELVE WEEKS ENDED JULY 17, 2010

*Consolidated Sales.*

| Sales category       | For the Twelve Weeks Ended<br>July 16, 2011 |        | For the Twelve Weeks Ended<br>July 17, 2010 |        | % Increase<br>(Decrease) |
|----------------------|---|--------|---|--------|--------------------------|
|                      | \$<br>(Amounts<br>in<br>thousands)          | %      | \$<br>(Amounts<br>in<br>thousands)          | %      |                          |
| Branded Retail       | \$ 337,836                                  | 52.6%  | \$ 313,281                                  | 51.6%  | 7.8%                     |
| Store Branded Retail | 120,854                                     | 18.8   | 106,643                                     | 17.5   | 13.3%                    |
| Non-Retail and Other | 183,906                                     | 28.6   | 187,792                                     | 30.9   | (2.1)%                   |
| Total                | \$ 642,596                                  | 100.0% | \$ 607,716                                  | 100.0% | 5.7%                     |

The 5.7% increase in sales was attributable to the following for all sales categories:

| Percentage Point Change in Sales Attributed to: | Favorable<br>(Unfavorable) |
|---|----------------------------|
| Pricing/Mix                                     | 4.5%                       |
| Volume  | (2.1)%                     |
| Acquisition                                     | 3.3%                       |
| Total Percentage Change in Sales                | 5.7%                       |

**Sales category discussion**

The increase in branded retail sales was due primarily to overall pricing/mix increases and the Tasty acquisition. These were partially offset by decreased volume in branded white bread, soft variety bread and cake, excluding the Tasty acquisition. The increase in store branded retail sales was due primarily to increases in store brand cake and increased volume in the store brand white bread category and positive pricing/mix. The decrease in non-retail and other sales was due primarily to overall volume declines.

*Direct-Store-Delivery Sales.*

| Sales Category       | For the Twelve Weeks Ended<br>July 16, 2011 |        | For the Twelve Weeks Ended<br>July 17, 2010 |        | % Increase<br>(Decrease) |
|----------------------|---|--------|---|--------|--------------------------|
|                      | \$<br>(Amounts<br>in<br>thousands)          | %      | \$<br>(Amounts<br>in<br>thousands)          | %      |                          |
| Branded Retail       | \$ 314,315                                  | 59.9%  | \$ 288,606                                  | 58.9%  | 8.9%                     |
| Store Branded Retail | 91,560                                      | 17.5   | 81,239                                      | 16.6   | 12.7%                    |
| Non-Retail and Other | 118,705                                     | 22.6   | 120,074                                     | 24.5   | (1.1)%                   |
| Total                | \$ 524,580                                  | 100.0% | \$ 489,919                                  | 100.0% | 7.1%                     |

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The 7.1% increase in sales was attributable to the following for all sales categories:

| <b>Percentage Point Change in Sales Attributed to:</b> | <b>Favorable<br/>(Unfavorable)</b> |
|--|------------------------------------|
| Pricing/Mix  | 4.2%                               |
| Volume   | (1.2)%                             |
| Acquisition  | 4.1%                               |
| <br>Total Percentage Change in Sales                   | <br>7.1%                           |

### **Sales category discussion**

The increase in branded retail sales was due to pricing/mix increases and the Tasty acquisition partially offset by volume declines in branded white bread and cake, excluding the Tasty acquisition. The increase in store branded retail sales was due to increases in white bread and buns/rolls/tortillas and the Tasty acquisition. The decrease in non-retail and other sales was due to volume declines.

**Table of Contents***Warehouse Delivery Sales.*

| Sales Category       | For the Twelve Weeks Ended<br>July 16, 2011 |        | For the Twelve Weeks Ended<br>July 17, 2010 |        | %<br>Increase<br>(Decrease) |
|----------------------|---|--------|---|--------|-----------------------------|
|                      | \$<br>(Amounts<br>in<br>thousands)          | %      | \$<br>(Amounts<br>in<br>thousands)          | %      |                             |
| Branded Retail       | \$ 23,521                                   | 19.9%  | \$ 24,675                                   | 20.9%  | (4.7)%                      |
| Store Branded Retail | 29,294                                      | 24.8   | 25,404                                      | 21.6   | 15.3%                       |
| Non-Retail and Other | 65,201                                      | 55.3   | 67,718                                      | 57.5   | 3.7%                        |
| Total                | \$ 118,016                                  | 100.0% | \$ 117,797                                  | 100.0% | 0.2%                        |

The 0.2% increase in sales was attributable to the following for all sales categories:

| Percentage Point Change in Sales Attributed to: | Favorable<br>(Unfavorable) |
|---|----------------------------|
| Pricing/Mix                                     | 4.5%                       |
| Volume  | (4.3)%                     |
| <b>Total Percentage Change in Sales</b>         | <b>0.2%</b>                |

**Sales category discussion**

The decrease in branded retail sales was primarily the result of lower branded multi-pak and snack cake volume as a result of new store brand cake programs introduced by certain of the company's customers, which resulted in an increase in store branded retail sales. The decrease in non-retail and other sales, which include contract production and vending, was primarily due to lower volume.

*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, particularly flour, sweeteners, shortening oil and cocoa, partially offset by lower workforce-related costs as a percent of sales. In addition, the acquisition has higher costs as a percent of sales.

The DSD segment was consistent with prior year. Sales increases, improved efficiency and lower workforce-related costs as a percentage of sales were offset by higher ingredient costs and higher costs for the Tasty acquisition.

The warehouse delivery segment increase as a percent of sales was primarily the result of higher ingredient costs, primarily shortening oil, sugar and cocoa and repairs and maintenance costs, partially offset by lower workforce-related and packaging costs as a percent of sales. Costs associated with the closure of a mix plant in the current year and insurance proceeds in the prior year also contributed to the increased costs.

*Selling, Distribution and Administrative Expenses.* The increase as a percent of sales was due to the Tasty acquisition and higher distribution costs as a percent of sales. These were partially offset by sales increases. The acquisition related costs were \$4.5 million for the quarter and are included in unallocated corporate expenses.

The DSD segment's selling, distribution and administrative expenses were consistent with the prior year.

The warehouse delivery segment's selling, distribution and administrative expenses increased as a percent of sales primarily due to higher workforce-related costs as a percent of sales.

*Depreciation and Amortization.* Depreciation and amortization increased primarily due to the Tasty acquisition.

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The DSD segment's depreciation and amortization expense increase was due to the Tasty acquisition. The warehouse delivery segment's depreciation and amortization expense increase was due to assets placed in service subsequent to the second quarter of fiscal 2010.

*Income from Operations.* The increase in the DSD segment income from operations was attributable to higher sales, partially offset by increases in input costs. During the quarter, the acquisition was neutral to operating income. The decrease in the warehouse delivery segment income from operations was primarily a result of a lag in pricing compared to ingredient cost increases and by an unforeseen shift to the back half of certain planned volume. The increase in unallocated corporate expenses was primarily due to the Tasty acquisition related costs discussed above.

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*Net Interest Income.* The decrease was related to higher interest expense due to higher debt outstanding under the new credit facility due to the Tasty acquisition. The credit facility and term loan had outstanding borrowings of \$25.0 million and \$123.8 million, respectively, at July 17, 2010. The new credit facility and term loan had outstanding borrowings of \$204.0 million and \$103.1 million, respectively at July 16, 2011.

*Income Taxes.* The effective tax rate for the second quarter of fiscal 2011 was 35.5% compared to 35.3% in the second quarter of the prior year. The increase in the rate is due mainly to the non-deductible transaction costs associated with Tasty. 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.

TWENTY-EIGHT WEEKS ENDED JULY 16, 2011 COMPARED TO TWENTY-EIGHT WEEKS ENDED JULY 17, 2010

*Consolidated Sales.*

| Sales category       | For the Twenty-Eight Weeks Ended<br>July 16, 2011 |        | For the Twenty-Eight Weeks Ended<br>July 17, 2010 |        | %<br>Increase<br>(Decrease) |
|----------------------|---|--------|---|--------|-----------------------------|
|                      | \$<br>(Amounts in<br>thousands)                   | %      | \$<br>(Amounts in<br>thousands)                   | %      |                             |
| Branded Retail       | \$ 745,479  | 51.6%  | \$ 732,710  | 52.2%  | 1.7%                        |
| Store Branded Retail | 262,180   | 18.2   | 227,510   | 16.2   | 15.2%                       |
| Non-Retail and Other | 436,762   | 30.2   | 442,522   | 31.6   | (1.3)%                      |
| Total                | \$ 1,444,421                                      | 100.0% | \$ 1,402,742                                      | 100.0% | 3.0%                        |

The 3.0% increase in sales was attributable to the following for all sales categories:

| Percentage Point Change in Sales Attributed to: | Favorable<br>(Unfavorable) |
|---|----------------------------|
| Pricing/Mix                                     | 3.2%                       |
| Volume  | (1.6)%                     |
| Acquisitions                                    | 1.4%                       |
| Total Percentage Change in Sales                | 3.0%                       |

**Sales category discussion**

The increase in branded retail sales was due primarily to positive net pricing/mix and the acquisition, partially offset by volume declines in cake, excluding the Tasty acquisition, and white bread and soft variety bread. The increase in store branded retail sales was primarily due to increases in store branded cake. The decrease in non-retail and other sales was due primarily to decreases in fast foods and institutional.

*Direct-Store-Delivery Sales.*

| Sales category       | For the Twenty-Eight Weeks Ended<br>July 16, 2011 |       | For the Twenty-Eight Weeks Ended<br>July 17, 2010 |       | %<br>Increase<br>(Decrease) |
|----------------------|---|-------|---|-------|-----------------------------|
|                      | \$<br>(Amounts in<br>thousands)                   | %     | \$<br>(Amounts in<br>thousands)                   | %     |                             |
| Branded Retail       | \$ 694,052  | 59.2% | \$ 667,057  | 58.7% | 4.0%                        |
| Store Branded Retail | 193,605   | 16.5  | 180,770   | 15.9  | 7.1%                        |
| Non-Retail and Other | 283,773   | 24.3  | 288,266   | 25.4  | (1.6)%                      |

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|       |              |        |              |        |      |
|-------|--------------|--------|--------------|--------|------|
| Total | \$ 1,171,430 | 100.0% | \$ 1,136,093 | 100.0% | 3.1% |
|-------|--------------|--------|--------------|--------|------|

The 3.1% increase in sales was attributable to the following for all sales categories:

| <b>Percentage Point Change in Sales Attributed to:</b> | <b>Favorable<br/>(Unfavorable)</b> |
|--|------------------------------------|
| Pricing/Mix  | 2.8%                               |
| Volume   | (1.5)%                             |
| Acquisitions   | 1.8%                               |
| <br>Total Percentage Change in Sales                   | <br>3.1%                           |

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

The increase in branded retail sales was due primarily to positive net pricing/mix and the acquisition, partially offset by volume declines in white bread and soft variety bread. The increase in store branded retail was primarily from volume growth in store brand white bread and store brand buns/rolls/tortillas. The decrease in non-retail and other sales was primarily due to declines in foodservice channel sales.

*Warehouse Delivery Sales.*

| Sales category       | For the Twenty-Eight Weeks Ended<br>July 16, 2011 |        | For the Twenty-Eight Weeks Ended<br>July 17, 2010 |        | %<br>Increase<br>(Decrease) |
|----------------------|---|--------|---|--------|-----------------------------|
|                      | \$<br>(Amounts in<br>thousands)                   | %      | \$<br>(Amounts in<br>thousands)                   | %      |                             |
| Branded Retail       | \$ 51,427   | 18.8%  | \$ 65,653   | 24.6%  | (21.7)%                     |
| Store Branded Retail | 68,575  | 25.1   | 46,740  | 17.5   | 46.7%                       |
| Non-Retail and Other | 152,989   | 56.1   | 154,256   | 57.9   | (0.8)%                      |
| Total                | \$ 272,991  | 100.0% | \$ 266,649  | 100.0% | 2.4%                        |

The 2.4% increase in sales was attributable to the following for all sales categories:

| Percentage Point Change in Sales Attributed to: | Favorable<br>(Unfavorable) |
|---|----------------------------|
| Pricing/Mix                                     | 4.3%                       |
| Volume  | (1.9)%                     |
| <b>Total Percentage Change in Sales</b>         | <b>2.4%</b>                |

**Sales category discussion**

The decrease in branded retail sales was primarily the result of lower multi-pak cake volume as a result of store brand cake programs introduced by certain of the company's customers during the third quarter of fiscal 2010, which resulted in the increase in store branded retail sales. The decrease in non-retail and other sales, which include contract production and vending, was due primarily to lower mix plants sales.

*Materials, Supplies, Labor and Other Production Costs (exclusive of depreciation and amortization shown separately).* The decrease as a percent of sales was primarily due to higher sales. These were partially offset by higher workforce-related costs as a percent of sales and higher costs as a percent of sales for the acquisition. Costs of \$2.8 million were incurred during the first quarter of fiscal 2011 associated with the closure of a manufacturing facility.

The DSD segment increase as a percent of sales was primarily a result of decreases in ingredient costs. These were partially offset by higher workforce-related costs as a percent of sales.

The warehouse delivery segment increase as a percent of sales was primarily as a result of higher ingredient and repairs and maintenance costs as a percent of sales.

*Selling, Distribution and Administrative Expenses.* The increase as a percent of sales was due to higher workforce-related costs as a percent of sales and \$5.3 million of acquisition related costs. Costs of \$2.4 million were incurred during the first quarter of fiscal 2011 associated with the closure of a manufacturing facility.



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The DSD segment's selling, distribution and administrative expenses increased as a percent of sales primarily due to higher distribution costs as a percent of sales.

The warehouse delivery segment's selling, distribution and administrative expenses were relatively flat as a percent of sales.

*Depreciation and Amortization.* Depreciation and amortization increased primarily due to the acquisition and assets placed into service after the second quarter of fiscal 2010.

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The DSD segment's depreciation and amortization expense increased primarily due to assets placed into service subsequent to the second quarter of fiscal 2010 and the acquisition. The warehouse delivery segment's depreciation and amortization expense increased primarily as a result of assets placed into service subsequent to the second quarter of fiscal 2010.

*Income from Operations.* The increase in the DSD segment income from operations was attributable to sales increases and lower input costs as a percent of sales, partially offset by costs associated with the closure of a manufacturing facility in the first quarter of this year. The decrease in the warehouse delivery segment income from operations was primarily a result of higher ingredient costs as a percent of sales and a lag in pricing compared to ingredient cost increases and by an unforeseen shift to the back half of certain planned volume. The increase in unallocated corporate expenses was primarily due to \$5.3 million of acquisition related costs.

*Net Interest Income.* The increase was related to lower interest expense due to lower debt outstanding under the former and new credit facilities and the term loan for the most part of fiscal 2011 when compared to fiscal 2010.

*Income Taxes.* The effective tax rate for the twenty-eight weeks ended July 16, 2011 and July 17, 2010 was 35.2% and 35.5%, respectively. 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 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 \$13.7 million at July 16, 2011 from \$6.8 million at January 1, 2011. The increase resulted from \$66.2 million provided by operating activities and \$152.2 provided by financing activities, offset by \$211.4 million disbursed for investing activities.

*Cash Flows Provided by Operating Activities.* Net cash of \$66.2 million provided by operating activities during the twenty-eight weeks ended July 16, 2011 consisted primarily of \$69.4 million in net income, adjusted for the following non-cash items (amounts in thousands):

|   |                  |
|---|------------------|
| Depreciation and amortization   | \$ 48,890        |
| Gain reclassified from accumulated other comprehensive income to net income | (36,118)         |
| Stock-based compensation  | 9,387            |
| Deferred income taxes   | (5,719)          |
| Provision for inventory obsolescence  | 762              |
| Allowances for accounts receivable  | 557              |
| Pension and postretirement plans expense                                    | 275              |
| Other   | (184)            |
| <b>Total</b>  | <b>\$ 17,850</b> |

Cash used for working capital and other activities was \$21.1 million. As of July 16, 2011, the company had \$20.8 million recorded in other current assets representing collateral for hedged positions. As of January 1, 2011, the company had \$11.5 million recorded in other accrued liabilities representing collateral for hedged positions.

*Cash Flows Disbursed for Investing Activities.* Net cash disbursed for investing activities during the twenty-eight weeks ended July 16, 2011 of \$211.4 million consisted primarily of cash used for the Tasty acquisition of \$164.5 million (net of \$2.2 million acquired) and capital expenditures of \$43.4 million. Capital expenditures in the DSD segment and the warehouse delivery segment were \$33.8 million and \$8.4

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million, respectively. The company estimates capital expenditures of approximately \$85.0 million to \$90.0 million during fiscal 2011. 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 \$152.2 million during the twenty-eight weeks ended July 16, 2011 consisted primarily of dividends paid of \$38.4 million, stock repurchases of \$18.0 million, and the payment of financing fees related to the credit facility amendment and restatement of \$2.1 million. These were offset by net debt issuances of \$190.1 million and \$12.5 million from the exercise of stock options and the related share-based payments income tax benefit of \$3.1 million.

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**Credit Facility and Term Loan**

*Credit Facility.* On May 20, 2011, the company further 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.

Interest on the new credit facility 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 \$2.1 million in connection with the amendment of the credit facility, which, in addition to the remaining balance of the original \$0.9 million in financing costs, is being amortized over the remaining life of the term loan.

The former credit facility was a five-year, \$250.0 million senior unsecured revolving loan facility, which would have expired October 5, 2012. Under the former credit facility, interest was due quarterly in arrears on any outstanding borrowings at a customary Eurodollar rate or the base rate plus the applicable margin. The underlying rate was defined as rates offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranged from 0.0% to 0.30% for base rate loans and from 0.40% to 1.275% for Eurodollar loans. In addition, a facility fee ranging from 0.10% to 0.35% was due quarterly on all commitments under the credit facility. Both the interest margin and the facility fee were based on the company's leverage ratio. Financial covenants and other restrictions under the former credit facility were similar to those under the new credit facility, with the exception of the maximum leverage ratio. There were \$204.0 million in outstanding borrowings under the new credit facility at July 16, 2011, and no outstanding borrowings under the former credit facility at January 1, 2011, approximately \$166.7 million of which was utilized for the Tasty acquisition.

As of July 16, 2011 and January 1, 2011, the company was in compliance with all restrictive financial covenants under its former and new credit facilities.

*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. 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 can meet presently foreseeable financial requirements. As of July 16, 2011 and January 1, 2011, the company was in compliance with all restrictive financial covenants under the term loan. As of July 16, 2011 and January 1, 2011, the amounts outstanding under the term loan were \$103.1 million and \$114.4 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. Principal payments began on December 31, 2008 and are due quarterly under the term loan 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 company paid additional financing costs of \$0.1 million in connection with the amendment of the term loan, which, in addition to the original \$0.8 million in financing costs, is being amortized over the remaining life of the term loan.

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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.

### **Uses of Cash**

On February 17, 2011, the Board of Directors declared a dividend of \$0.13 per share on the company's common stock that was paid on March 17, 2011 to shareholders of record on March 3, 2011. This dividend payment was \$18.1 million. On May 25, 2011, the Board of Directors declared a dividend of \$0.15 per share on the company's common stock that was paid on June 24, 2011 to shareholders of record on June 10, 2010. This dividend payment was \$20.4 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 2011, 1,043,105 shares (split adjusted), at a cost of \$18.0 million of the company's common stock were purchased under the plan. No repurchases were made by the company during the second quarter of fiscal 2011. From the inception of the plan through July 16, 2011, 37.4 million shares, at a cost of \$422.2 million, have been purchased.

During the first quarter of fiscal 2011, the company paid \$18.8 million, including our share of employment taxes, in performance-based cash awards under the company's bonus plan.

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

Cash of \$166.7 million has been paid of the aggregate purchase price of \$171.2 million, including the payoff of certain indebtedness and Tasty transaction expenses. There are change in control payments that have been accrued as they were not paid concurrent with closing. The merger was completed through a short-form merger following the company's tender offer through a wholly owned subsidiary for all of the outstanding shares of common stock of Tasty for \$4.00 per share in cash, without interest and less any applicable withholding tax. Each share of Tasty not accepted for payment in the tender offer was converted into the right to receive the \$4.00 per share in cash as merger consideration, without interest and less any applicable withholding taxes, which is the same price in the tender offer.

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

The company contributed \$2.3 million to the Tasty defined benefit plan assumed with the acquisition. An additional \$5.8 million will be paid through the remainder of fiscal 2011 for this plan.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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 July 16, 2011, the company's hedge portfolio contained commodity derivatives with a net fair value of \$(12.6) million. Of this net fair value, \$(11.1) million is based on quoted market prices and \$(1.5) million is based on models and other valuation methods. Approximately \$(11.0) million and \$(1.6) million of this net fair value relates to instruments that will be utilized in fiscal 2011 and 2012, respectively.



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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 July 16, 2011, a hypothetical ten percent increase (decrease) in commodity prices would increase (decrease) the net fair value of the derivative portfolio by \$15.5 million. The analysis disregards changes in the exposures inherent in the underlying hedged items; however, the company expects that any increase (decrease) in the net fair value of the portfolio would be substantially offset by increases (decreases) in raw material and packaging prices.

### **INTEREST RATE RISK**

The company has 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 entered into on August 1, 2008. As of July 16, 2011, the net fair value of these interest rate swaps was \$(5.1) million. All of this net fair value is based on valuation models and \$(1.7) million, \$(2.7) million and \$(0.7) million of this net fair value is related to instruments expiring in 2011 through 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 July 16, 2011, a hypothetical ten percent increase (decrease) in interest rates would increase (decrease) the net fair value of the interest rate swap by \$0.1 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.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended July 16, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In making its assessment of changes in internal control over financial reporting as of July 16, 2011, management has excluded the Tasty acquisition as we are currently assessing their control environment. Tasty's revenues for the twelve and twenty-eight weeks ended July 16, 2011 of \$20.2 million represents approximately 3.1% and 1.4% of our consolidated revenue for the twelve and twenty-eight weeks ended July 16, 2011, respectively. Tasty's assets, including intangible assets, represent approximately 4.8% of our consolidated assets at July 16, 2011.

## **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. (Hostess) (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

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from its sales of *Nature's Pride* products, and injunctive relief. Flowers sought summary judgment for its claims, which was denied by the court. We expect this case to proceed to trial in late 2011 or 2012.



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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 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 January 1, 2011 for information regarding factors that could affect the company's results of operations, financial condition and liquidity. The following changes have been made to our *Risk Factor* disclosures subsequent to the filing of the Form 10-K.

*Increases in employee and employee-related costs could have adverse effects on our profitability.*

Pension, health care and workers' compensation costs have been increasing and will likely continue to increase. Any substantial increase in pension, health care or workers' compensation costs may have an adverse impact on our profitability. The company records pension costs and the liabilities related to its benefit plans based on actuarial valuations, which include key assumptions determined by management. Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by various factors, such as changes in the number of plan participants, changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plan and other factors.

In addition, legislation or regulations regarding areas such as labor and employment and employee benefit plans (including employee health care benefits and costs) may impact our results of operations.

*We may be adversely impacted by the failure to execute acquisitions successfully.*

The company from time to time undertakes acquisitions or divestitures. The success of any acquisition or divestiture depends on the company's ability to identify opportunities that help us meet our strategic objectives, consummate a transaction on favorable contractual terms and achieve expected returns and other financial benefits. Acquisitions require us to efficiently integrate the acquired business to achieve the expected returns. Divestitures present operational risks to execute the transaction and may require impairment charges. Acquisition or divestiture transactions present unique financial and operational risks, including diversion of management attention from the existing core business, integrating or separating personnel and financial and other systems, and adverse affects on exiting business relationships with suppliers and customers. In situations where acquisitions or divestitures are not successfully implemented or completed, the company's business or financial results could be negatively impacted.

### **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: August 17, 2011

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| <b>Exhibit 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 March 30, 2001, File No. 1-16247).   |
| 4.2               | Form of Indenture (Incorporated by reference to Flowers Foods Registration Statement on Form S-3, dated February 8, 2011, 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). |

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|          |   |
|----------|---|
| 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). |
| 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.   |
| *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 July 16, 2011.  |
| *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

