FLOWERS FOODS INC
Form 10-K
February 21, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 30, 2017

OR

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

Commission file number 1-16247

FLOWERS FOODS, INC.

(Exact name of registrant as specified in its charter)

Georgia	58-2582379
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1919 Flowers Circle	
Thomasville, Georgia	31757
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:

(229) 226-9110

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Based on the closing sales price on the New York Stock Exchange on July 15, 2017 the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was $3,472,632,171.

On February 15, 2018, the number of shares outstanding of the registrant's Common Stock, $0.01 par value, was 210,609,122.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2018 Annual Meeting of Shareholders to be held May 24, 2018, which is expected to be filed with the Securities and Exchange Commission on or about April 2, 2018, have been incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

FORM 10-K REPORT

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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 Flowers Foods, Inc. (the "company", "Flowers Foods", "Flowers", "us", "we", or "our") and its representatives that are not historical fa 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," "int "may," "plan," "predict," "project," "should," "will," "would," "is likely to," "is expected to" or "will continue," or the negativ terms or other comparable terminology. These forward-looking statements are based upon assumptions we believe are reasonable.

Forward-looking statements are based on current information and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected. Certain factors that may cause actual results, performance, liquidity, and achievements to differ materially from those projected are discussed in this Annual Report on Form 10-K (the "Form 10-K") and may include, but are not limited to:

- unexpected changes in any of the following: (i) general economic and business conditions; (ii) the competitive setting in which we operate, including advertising or promotional strategies by us or our competitors, as well as changes in consumer demand; (iii) interest rates and other terms available to us on our borrowings; (iv) energy and raw materials costs and availability and hedging counter-party risks; (v) relationships with or increased costs related to our employees and third-party service providers; and (vi) laws and regulations (including environmental and health-related issues), accounting standards or tax rates in the markets in which we operate;
- the loss or financial instability of any significant customer(s);
- changes in consumer behavior, trends and preferences, including health and whole grain trends, and the movement toward more inexpensive store-branded products;
- the level of success we achieve in developing and introducing new products and entering new markets;
- our ability to implement new technology and customer requirements as required;
- our ability to operate existing, and any new, manufacturing lines according to schedule;
- our ability to execute our business strategies, including those strategies the company has initiated under Project Centennial, which may involve, among other things, (i) the integration of acquisitions or the acquisition or disposition of assets at presently targeted values; (ii) the deployment of new systems and technology; and (iii) an enhanced organizational structure;
- consolidation within the baking industry and related industries;
- changes in pricing, customer and consumer reaction to pricing actions, and the pricing environment among competitors within the industry;
- disruptions in our direct-store-delivery distribution model, including litigation or an adverse ruling by a court or regulatory or governmental body that could affect the independent contractor classifications of the independent distributors;
- increasing legal complexity and legal proceedings that we are or may become subject to;
- increases in employee and employee-related costs, including funding of pension plans;
- the credit, business, and legal risks associated with independent distributors and customers, which operate in the highly competitive retail food and foodservice industries;
- any business disruptions due to political instability, armed hostilities, incidents of terrorism, natural disasters, labor strikes or work stoppages, technological breakdowns, product contamination, product recalls or safety concerns related to our products, or the responses to or repercussions from any of these or similar events or conditions and our ability to insure against such events;
- the failure of our information technology systems to perform adequately, including any interruptions, intrusions or security breaches of such systems; and
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regulation and legislation related to climate change that could affect our ability to procure our commodity needs or that necessitate additional unplanned capital expenditures.

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

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

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

PART I

Item 1. Business
The Company

Flowers Foods, Inc. (references to “we,” “our,” “us,” the “company,” “Flowers” or “Flowers Foods”) was founded in 1919 as a Georgia corporation when two brothers — William Howard and Joseph Hampton Flowers — opened Flowers Baking Company in Thomasville, Georgia. Flowers’ operating strategy from the beginning was to invest in efficient and technologically advanced bakeries, offer excellent baked foods, build strong brands, provide extraordinary service to customers, offer a workplace that fosters a team spirit, develop innovations to improve the business, and grow through strategic acquisitions.

Flowers is focused on opportunities for growth within the baked foods category and seeks to have its products available wherever bakery foods are sold or consumed — whether in homes, supermarkets, convenience stores, restaurants, fast food outlets, institutions, or vending machines. The company produces a wide range of breads, buns, rolls, snack cakes, and tortillas.

Project Centennial

In June 2016, the company launched Project Centennial, an enterprise-wide business and operational review to evaluate opportunities to streamline our operations, drive efficiencies, and invest in strategic capabilities that we believe will strengthen our competitive position and drive profitable revenue growth. Based upon the results of this review, Flowers has begun executing on four primary strategic initiatives:

- reinvigorate the core business – invest in the growth and innovation of our core brands, streamline our brand and product portfolio, improve trade promotion management, and strengthen our partnership with distributors so they can grow their businesses;
- capitalize on product adjacencies – greater focus on growing segments of the bakery category, such as foodservice, in-store bakery, impulse items, and healthy snacking;
- reduce costs to fuel growth – reduce complexity and better leverage scale to lower costs; and
- develop leading capabilities – invest in capabilities to become a more centralized and analytics-focused company.

The company implemented a plan to transition to these primary strategies beginning in fiscal 2017, with the transition intended to be completed by fiscal 2021. By executing on Project Centennial, the company expects to deliver on its stated long-term goals of sales growth in the range of 2% to 4% and EBITDA margins in the range of 12% to 14%. The company defines EBITDA as earnings from continuing operations before interest, income taxes, depreciation and amortization.

Flowers' priorities for fiscal 2018 are to simplify and streamline our brand assortment, provide additional tools to distributors to enable them to grow their businesses, reduce costs of purchased goods and services, and put in place a more efficient operating model for a national branded food company.

In fiscal 2019 and beyond, Flowers expects to fully realize the benefits of a lower-cost operating model, stronger brand architecture, and increased strategic investments. These benefits are expected to drive sales growth in the range of 3% to 4% and EBITDA margins in the range of 13% to 14%.

As of the end of fiscal 2017, the company made progress in key Project Centennial initiatives, including the following accomplishments:

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completed initial survey across consumer preferences in 2016, with an additional survey performed in June 2017 to understand shopping habits and ingredient preferences, brand positioning, packing and innovation concepts, and conjoint analysis of product attributes and pricing;

- began executing on strategies to reinvigorate core brands with strong consumer appeal through marketing investments and innovation;
- formulated a strategy and began to identify specific opportunities to diversify our brand portfolio into attractive adjacent categories;
- streamlined our brand assortment in key retail categories;

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- developed a specific set of strategies to enhance our relationships with our distributor partners and reduce stales, which we began to take action in the first quarter of 2018;
- utilized a third-party distribution platform to expand distribution of products in the Midwest and Northeast;
- completed continuous improvement pilot programs at eight bakeries that validated opportunities for efficiency savings across our manufacturing network, which we will continue to roll out in fiscal 2018;
- made continued progress toward reaching the company’s 2018 gross run-rate savings goal of $70-$80 million, relative to fiscal 2016, including the reduction in purchased goods and services spend by at least $45 million;
- closed a Warehouse Segment snack cake plant in Winston-Salem, North Carolina and shifted production to other existing facilities;
- began to analyze data and formulate plans to further optimize the company’s existing manufacturing and logistics network;
- completed a voluntary separation incentive plan and other workforce reductions and began transitioning to the company’s new organizational structure, as more fully discussed below; and
- hired a Chief Marketing Officer.

In the second quarter of fiscal 2017, the company announced an enhanced organizational structure designed to emphasize brand growth and innovation in line with a national branded food company, drive enhanced accountability, reduce costs, strengthen long-term strategy and provide greater focus on the strategic initiatives under Project Centennial. The company made substantial progress transitioning to the new structure over the third and fourth quarters of fiscal 2017 and continues to target full implementation to be completed early in fiscal 2019. Prior to that time, the company will continue to manage the business and report segment information based on our current segments, the DSD Segment and the Warehouse Segment.

The new organizational structure establishes two business units (“BU”), Fresh Packaged Bread and Snacking/Specialty, and realigns key leadership roles. The new structure also provides for centralized marketing, sales, supply chain, shared-services/administrative, and corporate strategy functions. We continue to explore additional opportunities to streamline our core operations. Although we anticipate consulting fees in fiscal 2018 of approximately $8.0 million to $10.0 million, we cannot estimate the non-consulting costs expected to be incurred related to these initiatives.

Segments

We currently manage our business by product delivery method. Our two operating segments reflect our two distinct methods of delivering products to the market:

Direct-Store-Delivery Segment (the “DSD Segment”)

- Produces fresh breads, buns, rolls, tortillas and snack cakes sold primarily by a network of independent distributors to retail and foodservice customers in the following areas of the U.S.: East, South, Southwest, West Coast, and select markets in the Midwest, Nevada, and Colorado.
- Has a 39-bakery network with a highly developed reciprocal baking system (where bakeries can produce for its market and that of other bakeries within the direct-store-delivery (“DSD” network), which results in long and efficient production runs.
- Major DSD Segment brands include Nature’s Own, Wonder, Cobblestone Bread Company, Tastykake and Dave’s Killer Bread.

Warehouse Delivery Segment (the “Warehouse Segment”)

- Produces fresh snack cakes and frozen breads and rolls.
- Delivers its products fresh or frozen to customers’ warehouses nationwide via contract carriers.
- Major brands include Mrs. Freshley’s, Alpine Valley Bread, and European Bakers.

The table below presents the sales, percent of total sales, and the number of plants by each segment:

Segment	Sales	Percent of total sales		Plants
DSD Segment	$3,318,563	85	%	39
Warehouse Segment	$602,170	15	%	8
Consolidated	$3,920,733	100	%	47

See Note 24, Segment Reporting, of Notes to Consolidated Financial Statements of this Form 10-K for more detailed financial information about our segments. Our brands are among the best known in the baking industry. Many of our DSD Segment's brands have a major presence in the product categories in which they compete. They have a leading share of fresh packaged branded sales measured in both dollars and units in the major metropolitan areas we serve in Southern markets.

Operating Strategies

Flowers Foods has focused on developing and refining operating strategies to create competitive advantages in the marketplace. We believe these operating strategies help us achieve our long-term objectives and work to build value for our shareholders. Put simply, our strategies are to:

- Grow Sales. We develop new and core markets through new customers, new products, strong brands, and acquisitions. We have a three-pronged strategy for growing sales through market expansions, core markets, and acquisitions.
- Invest Wisely. We use technology and efficiencies to be the low-cost producer of delicious bakery foods. We invest to improve the effectiveness of our bakeries, distribution networks, and information systems.
- Bake Smart. We innovate to improve processes, enhance quality, reduce costs, and conserve resources.
- Give Extraordinary Service. We go beyond the expected to meet our customers' needs.
- Appreciate the Team. We respect every individual, embrace diversity, and promote the career growth of our team members.

Strengths and core competencies

- Seasoned Team – Executive management team with an average of more than 20 years of baking industry experience
- Strong Brands – More than $3.3 billion in total branded retail sales, including vending
- Geographic Reach – Fresh products available to more than 85% of the U.S. population; frozen products available nationally
- Strong Financial Position – Driven by solid cash flows

We aim to achieve consistent and sustainable growth in sales and earnings by focusing on improvements in the operating results of our existing bakeries and, after detailed analysis, acquiring companies and properties that add value to the company. We believe this strategy has resulted in consistent and sustainable growth that builds value for our shareholders.

We regularly articulate our core business strategies to the investment community and internally to our team members, including long-term (five-year) goals. Compensation and bonus programs are linked to the company's short and long-term goals. The majority of our employees participate in an annual formula-driven, performance-based cash bonus program. In addition, certain employees participate in a long-term incentive program that provides performance-contingent common stock awards that generally vest over a two-year period. We believe these incentive programs provide both a short and long-term goal for our most senior management team and aligns their interests with those of our shareholders.

Grow Sales

This strategy encompasses specific efforts for growth through acquisitions, market expansions, product innovation, and core markets. As a leading U.S. baker, our products are available to consumers through traditional supermarkets, foodservice distributors, convenience stores, mass merchandisers, club stores, wholesalers, casual dining and quick-serve restaurants, schools, hospitals, dollar stores, and vending machines. To enhance our ability to grow sales, we develop bakery foods that meet changing consumer needs and preferences using market research and the strength of our well-established brands. We maintain and strengthen our brands in both existing and new markets by focusing on consistent product quality, a broad and diverse product line, and exceptional customer service. We expand our geographic reach through strategic acquisitions and by expanding the market reach of our existing bakeries. We believe our growth strategy has been successful, as evidenced by our sales compound average annual growth rate of 5.3% over the last five years.

Acquisitions

Acquisitions have been an important component of our growth strategy. Since our initial public offering in 1968, we have made more than 100 acquisitions. Since 2003, we have completed 16 acquisitions that, in the aggregate, added approximately $2.0 billion in annual revenue. Our primary acquisition targets have historically been independent/regional baking companies in areas of the country where our fresh products have not had access to those markets. See Note 10, Acquisitions, of Notes to Consolidated Financial Statements of this Form 10-K for more details of each of the acquisitions described below.

Dave's Killer Bread acquisition (2015)

On September 12, 2015, the company completed the acquisition of Dave's Killer Bread ("DKB"), the nation's best-selling organic bread. The DKB acquisition not only gave us the top organic bread brand in the country, it also gave our DSD Segment access to the Pacific Northwest market.

Alpine Valley Bread acquisition (2015)

On October 13, 2015, the company completed the acquisition of Alpine Valley Bread Company ("Alpine"), a family-owned producer of certified organic and all natural breads in the U.S. The acquisition expanded our penetration into the fast growing organic market and provided additional organic production capacity.

Core Markets

Core markets are those served by our DSD Segment for more than five years. These are markets where our brands are established. Our primary growth strategy for core markets is product innovation. We strive to develop innovative, new products for both retail and foodservice customers that will drive excitement and consumers to our brands and products. In addition, in conjunction with the independent distributors, we focus on continually building relationships with both new and potential retail and foodservice customers, which helps grow sales.

Expansion Markets

Expansion markets are defined as new DSD Segment markets entered within the last five fiscal years. In 2011, we announced a DSD market expansion goal to serve a geographical area reaching at least 75% of the U.S. population by 2016. At the end of fiscal 2016, we had exceeded that goal and currently serve more than 85% of the U.S. population.

Our market expansion efforts are driven by our bakery subsidiaries. They accomplish this by reaching out to new and existing retail and foodservice customers in the new territory and expanding the DSD model by creating new territories and new independent distributor partnerships.

Invest Wisely and Bake Smart

Throughout our history, we have devoted significant resources to automate our bakeries and improve our distribution capabilities. We believe these investments have made us one of the most efficient, low-cost producers of packaged bakery products in the United States. We believe our capital investments yield valuable long-term benefits, such as more consistent product quality and greater production volume at a lower cost per unit.

From 2013 through 2017, we invested $450.7 million in capital projects. We believe our annual capital investments have given us a competitive edge and we are committed to maintaining that advantage by investing in new technologies and improved processes.

We have established a reciprocal baking system that allows us to shift production among our DSD Segment bakeries. Because of this system, we have the flexibility to meet changing market needs, can respond effectively to hurricanes and other wide-spread natural disasters, and be a low-cost producer and marketer of a full line of bakery products both regionally and nationally. For efficient movement of products from bakery to market, we use company-owned and leased warehouses and distribution centers.

We believe our company also invests wisely and bakes smart by:

- Engaging in research and development to create new products, improve the quality of existing products, and improve production processes and techniques.
- Developing and evaluating new processing techniques for both current and proposed product lines.
- Improving the efficiency and accuracy of our shipping logistics. We have been installing a paperless, user-directed automated shipping system at our bakeries that uses barcode labels, displays, and door scanners. The system streamlines the finished goods product flow, provides for greater accountability of finished goods received and shipped, improves order fulfillment, and minimizes shortage costs. At the end of fiscal 2017, we had installed this automated shipping system in approximately 87% of our bakeries.

Give Extraordinary Service

When it comes to our retail and foodservice partnerships, our strategy is simple: Go beyond the expected. Our bakery, sales, and corporate national account teams forge strong business relationships built on providing the best quality products at the best price when and where our customers need them. Focusing on extraordinary service helps grow sales in both core and new markets. Also critical to this strategy within our DSD Segment is the professionalism and service provided by the independent distributors who provide daily customer service and build strong retail and foodservice relationships.

Appreciate the Team

We strive to treat all our team members and associates with respect and dignity and work to maintain good relationships and open communication. We are committed to equal employment opportunities and operating our facilities under all federal and state employment laws and regulations. In addition, our subsidiaries provide:

- fair and equitable compensation and a balanced program of benefits;
- working conditions that promote employees' health and safety;
- training opportunities that encourage professional development; and
- ways for team members to discuss concerns through an open door policy, peer review program, and anonymous toll-free hotline.

We employ approximately 9,800 people. Approximately 1,160 of these employees are covered by collective bargaining agreements.

Brands & Products

The company reports sales (consolidated and by segment) as branded retail, store branded retail, or non-retail and other. The non-retail and other category includes foodservice, restaurant, institutional, vending, thrift stores, and contract manufacturing. The table below presents our major brands and the geographic locations in the U.S. in which our products are available:

Brand	Availability
Nature's Own, Wonder, Cobblestone Bread Co., Dave s Killer Bread	East, South, Southwest, West Coast, and select markets in the Midwest, Nevada, and Colorado
Tastykake	Northeast, South, Southern Midwest, Southwest, and select markets in California

Whitewheat, Betsy Ross, Butterkrust, Captain John Derst's, Home Pride, Dandee, Aunt Hattie s, Bunny, Butternut, Country Kitchen, Evangeline Maid, Holsum, Merita, Sunbeam, Natural Grains, and Sara Lee (California)	Available in select regional markets across the country
Alpine Valley Breads	Nationally, in select markets
Barowsky s Organics	New England
Mrs. Freshley s	Nationally, in select markets
Mi Casa	Nationally, in select markets
Frestillas	Regionally, in select markets

Brand Highlights

- Nature's Own, including Whitewheat, is the best-selling loaf bread in the U.S., and its compound annual growth rate in retail sales since 2000 has been 8.3%. The Nature's Own sales, at retail, were $1.0 billion for fiscal 2017.
- Nature's Own Honey Wheat is the number one selling fresh packaged bread Universal Product Code ("UPC") in the U.S. Nature's Own had three of the top six UPC's in the Fresh Packaged Bread category during our fiscal 2017 (source: IRI Total US MultiOutlet).

Our Warehouse Segment markets a line of specialty and organic breads and rolls, including the Alpine Valley Bread brand, for retail and foodservice customers. It also produces proprietary breads, buns, and rolls for specific foodservice customers. This segment's snack cakes are sold under the Mrs. Freshley's and store brands. Warehouse Segment products are fresh and frozen and distributed nationally through retail, foodservice and vending customer warehouses.

The table below presents our sales by product mix for fiscal 2017 on a consolidated basis (internal sales data warehouse – "SDW"):

The table below presents our sales by channel for fiscal 2017 on a consolidated basis (internal sales data warehouse – "SDW"):

Marketing

We support our key brands with an advertising and marketing effort that reaches out to consumers through electronic and in-store coupons, social media (such as Facebook and Twitter), digital media (including e-newsletters to consumers), websites (our brand sites and third-party sites), event and sports marketing, on-package promotional offers and sweepstakes, and print advertising. When appropriate, we may join other sponsors with promotional tie-ins. We often focus our marketing efforts on specific products and holidays, such as hamburger and hot dog bun sales during Memorial Day, the Fourth of July, and Labor Day, and snack cakes for specific seasons.

Customers

Our top 10 customers in fiscal 2017 accounted for 48.5% of sales. During fiscal 2017, our largest customer, Walmart/Sam's Club, represented 20% of the company's sales. The loss of, or a material negative change in our relationship with, Walmart/Sam's Club or any other major customer could have a material adverse effect on our business. Walmart/Sam's Club was the only customer to account for 10.0% or more of our sales during fiscal years 2017, 2016 and 2015.

Fresh baked foods' customers include mass merchandisers, supermarkets and other retailers, restaurants, quick-serve chains, food wholesalers, institutions, dollar stores, and vending companies. We also sell returned and surplus product through a system of discount bakery stores. The company currently operates 292 such stores, and reported sales of $75.4 million during fiscal 2017 from these outlets.

Our Warehouse Segment supplies national and regional restaurants, institutions and foodservice distributors, and retail in-store bakeries with breads and rolls. It also sells packaged bakery products to wholesale distributors for ultimate sale to a wide variety of food outlets. It sells packaged snack cakes primarily to customers who distribute the product nationwide through multiple channels of distribution, including mass merchandisers, supermarkets, vending outlets and convenience stores. In certain circumstances, we enter into co-packing arrangements with retail customers or other food companies, some of which are competitors.

Distribution

Distributing fresh bakery foods through a DSD model is a complex process. It involves determining appropriate order levels and delivering products from bakeries to independent distributors for sale and direct delivery to customer stores. The independent distributors are responsible for ordering products, stocking shelves, maintaining special displays, and developing and maintaining good customer relations to ensure adequate inventory and removing unsold goods.

The company has sold the majority of the distribution rights for these territories to independent distributors under long-term financing arrangements. Independent distributors, highly motivated by financial incentives from their distribution rights ownership, strive to increase sales by offering outstanding service and merchandising. Independent distributors have the opportunity to benefit directly from the enhanced value of their distribution rights resulting from higher branded sales volume.

Our DSD model is comprised of three types of territories. Independent distributors who own the rights to distribute certain brands of our fresh packaged bakery foods in defined geographic markets. Company-owned and operated territories with the distribution rights that are classified as available for sale and company owned and operated territories with the distribution rights that are classified as held and used. The table below presents the approximate number of territories used by the company on December 30, 2017:

Type of territory	Number of territories
Independent distributor distribution rights	5,593
Company owned classified as available for sale	374
Company owned classified as held and used	105
Total territories	6,072

The company has developed proprietary software on the hand-held computers that independent distributors use for ordering, sales transactions, and to manage their businesses. The company provides these hand-held computers to the independent distributors and charges them an administrative fee for their use and other administrative services. This fee is recognized as a reduction to the company's selling, distribution and administrative expenses. Our proprietary software permits distributors to track and communicate inventory data to bakeries and to calculate recommended order levels based on historical sales data and recent trends. These orders are electronically transmitted to the appropriate bakery on a nightly basis. We believe this system assists us in minimizing returns of unsold goods. The fees collected for each of the last three fiscal years were as follows (amounts in thousands):

Year	Fees collected
Fiscal 2017	$ 6,965
Fiscal 2016	$ 6,544
Fiscal 2015	$ 6,790

In addition to hand-held computers, we maintain an information technology ("IT") platform that allows us to track sales, product returns, and profitability by selling location, bakery, day, and other criteria. The system provides us with daily, on-line access to sales and gross margin reports, allowing us to make prompt operational adjustments when appropriate. It also permits us to better forecast sales and improve distributors' in-store product ordering by customer. This IT platform is integral to our hand-held computers.

We also use scan-based trading technology (referred to as "pay by scan" or "PBS") to track and monitor sales and inventories more effectively. PBS allows the independent distributors to bypass the often lengthy product check-in at retail stores, which gives them more time to service customers and merchandise products. PBS also benefits retailers, who only pay suppliers for what they actually sell, or what is scanned at checkout. During the last three fiscal years, PBS sales were as follows (amounts in thousands):

Year	PBS sales
Fiscal 2017	$1,390,974
Fiscal 2016	$1,273,660
Fiscal 2015	$1,245,422

Our Warehouse Segment distributes a portion of our packaged bakery snack products from a central distribution facility located near our Crossville, Tennessee snack cake bakery. We believe this centralized distribution method allows us to achieve both production and distribution efficiencies. Products coming from different bakeries are then cross-docked and shipped directly to customers' warehouses nationwide. Our frozen bread and roll products are shipped to various outside freezer facilities for distribution to our customers.

Intellectual Property

We own a number of trademarks, trade names, patents, and licenses. The company also sells products under franchised and licensed trademarks and trade names that we do not own (Sunbeam, Bunny, and Sara Lee – only in California – among others). We consider all of our trademarks and trade names important to our business since we use them to build strong brand awareness and consumer loyalty.

Raw Materials

Our primary baking ingredients are flour, sweeteners, shortening, and water. We also use paper products, such as corrugated cardboard, films and plastics to package our bakery foods. We strive to maintain diversified sources for all of our baking ingredients and packaging products. In addition, we are dependent on natural gas or propane as fuel for firing our ovens.

Commodities, such as our baking ingredients, periodically experience price fluctuations. 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 other derivative financial instruments in an effort to manage the impact of such volatility in raw material prices, but some organic and specialty ingredients do not offer the same hedging opportunities to reduce the impact of price volatility. Any decrease in the supply available under these agreements and instruments could increase the effective price of these raw materials to us and significantly impact our earnings.

Regulations

As a producer and marketer of food items, our operations are subject to regulation by various federal governmental agencies, including the U.S. Food and Drug Administration, the U.S. Department of Agriculture, the U.S. Federal Trade Commission, the U.S. Environmental Protection Agency, the U.S. Department of Commerce, and the U.S. Department of Labor (the “DOL”). We also are subject to the regulations of various state agencies, with respect to production processes, product quality, packaging, labeling, storage, distribution, labor, and local regulations regarding the licensing of bakeries and the enforcement of state standards and facility inspections. Under various statutes and regulations, these federal and state agencies prescribe requirements and establish standards for quality, purity, and labeling. Failure to comply with one or more regulatory requirements could result in a variety of sanctions, including monetary fines or compulsory withdrawal of products from store shelves. On August 9, 2016, the DOL notified the company that it was scheduled for a compliance review under the Fair Labor Standards Act. The company is cooperating with the DOL.

Advertising of our businesses is subject to regulation by the Federal Trade Commission, and we are subject to certain health and safety regulations, including those issued under the Occupational Safety and Health Act.

The cost of compliance with such laws and regulations has not had a material adverse effect on the company’s business. We believe that we are currently in material compliance with all applicable federal, state and local laws and regulations.

Our operations, like those of similar businesses, are subject to various federal, state and local laws and regulations with respect to environmental matters, including air and water quality and underground fuel storage tanks, as well as other regulations intended to protect public health and the environment. The company is not a party to any material proceedings arising under these laws and regulations. We believe compliance with existing environmental laws and regulations will not materially affect the Consolidated Financial Statements or the competitive position of the company. The company is currently in substantial compliance with all material environmental laws and regulations affecting the company and its properties.

Competitive Overview

The U.S. market for fresh and frozen bakery products is estimated at $36 billion at retail. This category is intensely competitive and has experienced significant change in the last several years. From a national standpoint, Flowers Foods is currently the second largest company in the U.S. fresh baking industry based on market share as presented in the following chart:

The current competitive landscape for breads and rolls in the U.S. baking industry now consists of Bimbo Bakeries USA, Flowers Foods, and Campbell Soup Company (Pepperidge Farm) along with smaller independent regional bakers, local bakeries, and retailer-owned bakeries.

There are a number of smaller regional bakers in the U.S. Some of these do not enjoy the competitive advantages of larger operations, including greater brand awareness and economies of scale in purchasing, distribution, production, information technology, advertising and marketing. However, size alone is not sufficient to ensure success in our industry. The company faces significant competition from regional and independent bakeries in certain geographic areas.

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Competition in the baking industry continues to be driven by a number of factors. These include the ability to serve consolidated retail and foodservice customers, generational changes in family-owned businesses, and competitors' promotional efforts on branded bread and store brands. Competition typically is based on product availability, product quality, brand loyalty, price, effective promotions, and the ability to target changing consumer preferences. Customer service, including frequent deliveries to keep store shelves well-stocked, is also a competitive factor.

The company also faces competition from store brands that are produced either by us or our competitors. Store brands (also known as "private label") have been offered by food retailers for decades. With the growth of mass merchandisers like Walmart and the ongoing consolidation of regional supermarkets into larger operations, store brands have become a significant competitor to the company in those areas where the company does not have the contract to produce the store brand. In general, the store brand share of retail fresh packaged bread in the U.S. accounts for approximately 24% of the dollar sales and approximately 34% of unit sales and has steadily declined over the past five years.

Other Available Information

Throughout this Form 10-K, we incorporate by reference information from parts of other documents filed with the SEC. The SEC allows us to disclose important information by referring to it in this manner, and you should review this information in addition to the information contained in this report.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statement for the annual shareholders' meeting, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with the SEC. You can learn more about us by reviewing our SEC filings in the Investor Center on our website at www.flowersfoods.com.

The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information about SEC registrants, including the company. You may also obtain these materials at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Except as otherwise expressly set forth herein, the information contained on our website is neither included nor incorporated by reference herein.

The following corporate governance documents may be obtained free of charge through our website in the "Corporate Governance" section of the "Investor Center" tab (unless otherwise specified) or by sending a written request to Flowers Foods, Inc., 1919 Flowers Circle, Thomasville, GA 31757, Attention: Investor Relations.

- Board Committees
- Code of Business Conduct and Ethics
- Flowers Foods Employee Code of Conduct
- Disclosure Policy
- Corporate Governance Guidelines
- Stock Ownership Guidelines
- Audit Committee Charter
- Compensation Committee Charter
- Finance Committee Charter
- Nominating/Corporate Governance Committee Charter
- Flowers Foods Supplier Code of Conduct (This document is on our website in the "Company Info" tab)

Item 1A. Risk Factors

You should carefully consider the risks described below, together with all of the other information included in this report, in considering our business and prospects. The risks and uncertainties described below are not the only ones facing us. These risk factors are not listed in any order of significance. Additional risks and uncertainties not presently known to us, or that we currently deem insignificant, may also impair our business operations. The occurrence of any of the following risks could harm our business, financial condition, liquidity or results of operations.

Economic conditions may negatively impact demand for our products, which could adversely impact our sales and operating profit.

The willingness of our customers and consumers to purchase our products may depend in part on economic conditions. Continuing or worsening economic challenges could have a negative impact on our business. Economic uncertainty may increase pressure to reduce the prices of some of our products, limit our ability to increase or maintain prices, and reduce sales of higher margin products or shift our product mix to low-margin products. In addition, changes in tax or interest rates, whether due to recession, financial and credit market disruptions or other reasons, could negatively impact us. If any of these events occurs, or if economic conditions become unfavorable, our sales and profitability could be adversely affected.

Increases in costs and/or shortages of raw materials, fuels and utilities could adversely impact our profitability.

Commodities, such as flour, sweeteners, shortening and water, which are used in our bakery products, are subject to price fluctuations. The cost of these inputs may fluctuate widely due to foreign and domestic government policies and regulations, weather conditions, domestic and international demand, or other unforeseen circumstances. Any substantial change in the prices or availability of raw materials may have an adverse impact on our profitability. We enter into forward purchase agreements and other derivative financial instruments from time to time to manage the impact of such volatility in raw materials prices; however, these strategies may not be adequate to overcome increases in market prices or availability. Our failure to enter into hedging or fixed price arrangements or any decrease in the availability or increase in the cost of these agreements and instruments could increase the price of these raw materials and significantly affect our earnings.

In addition, we are dependent upon natural gas or propane for firing ovens. The independent distributors and third-party transportation companies are dependent upon gasoline and diesel for their vehicles. The cost of fuel may fluctuate widely due to economic and political conditions, government policy and regulation, war, or other unforeseen circumstances. Substantial future increases in prices for, or shortages of, these fuels could have a material adverse effect on our profitability, financial condition or results of operations. There can be no assurance that we can cover these potential cost increases through future pricing actions. Also, as a result of these pricing actions, consumers could purchase less or move from purchasing high-margin products to lower-margin products.

Competition could adversely impact revenues and profitability.

The United States bakery industry is highly competitive. Our principal competitors in these categories all have substantial financial, marketing, and other resources. In most product categories, we compete not only with other widely advertised branded products, but also with store branded products that are generally sold at lower prices. Competition is based on product availability, product quality, price, effective promotions, and the ability to target changing consumer preferences. We experience price pressure from time to time due to competitors' promotional activity and other pricing efforts. This pricing pressure is particularly strong during adverse economic periods. Increased competition could result in reduced sales, margins, profits and market share.

A disruption in the operation of our DSD distribution system could negatively affect our results of operations, financial condition and cash flows.

We believe that our DSD distribution system is a significant competitive advantage. A material negative change in our relationship with the independent distributors, litigation or one or more adverse rulings by courts or regulatory or governmental bodies regarding our independent distributorship model, including actions or decisions that could affect the independent contractor classifications of the independent distributors, or an adverse judgment against the company for actions taken by the independent distributors, could materially and negatively affect our financial condition, results of operations and cash flows.

The costs of maintaining and enhancing the value and awareness of our brands are increasing, which could have an adverse impact on our revenues and profitability.

We rely on the success of our well-recognized brand names and we intend to maintain our strong brand recognition by continuing to devote resources to advertising, marketing and other brand building efforts. Brand value could diminish significantly due to several factors, including consumer perception that we have acted in an irresponsible manner, adverse publicity about our products (whether or not valid), our failure to maintain the quality of our products, the failure of our products to deliver consistently positive consumer experiences, or the products becoming unavailable to consumers. Our marketing investments may not prove successful in maintaining or increasing our market share. If we are not able to successfully maintain our brand recognition, our revenues and profitability could be adversely affected.

We rely on several large customers for a significant portion of sales and the loss of one of our large customers could adversely affect our business, financial condition or results of operations.

We have several large customers that account for a significant portion of sales, and the loss of one of our large customers could adversely affect our financial condition and results of operations. Our top ten customers accounted for 48.5% of sales during fiscal 2017. Our largest customer, Walmart/Sam's Club, accounted for 20% of sales during this period. These customers do not typically enter long-term sales contracts, and instead make purchase decisions based on a combination of price, product quality, consumer demand, and customer service performance. At any time, they may use more of their shelf space, including space currently used for our products, for store branded products or for products from other suppliers. Additionally, our customers may face financial or other difficulties that may impact their operations and their purchases from us. Disputes with significant suppliers could also adversely affect our ability to supply products to our customers. If our sales to one or more of these customers are reduced, this reduction may adversely affect our business, financial condition or results of operations.

Our inability to execute our business strategy could adversely affect our business.

We employ various operating strategies to maintain our position as one of the nation's leading producers and marketers of bakery products available to customers through multiple channels of distribution. In particular, we have initiated under Project Centennial, among other things, (i) the integration of acquisitions or the acquisition or disposition of assets at presently targeted values, (ii) the deployment of new systems and technology, and (iii) an enhanced organizational structure. If we are unsuccessful in implementing or executing Project Centennial or one or more of our business strategies, our business could be adversely affected.

Inability to anticipate or respond to changes in consumer preferences may result in decreased demand for our products, which could have an adverse impact on our future growth and operating results.

Our success depends in part on our ability to respond to current market trends and to anticipate the tastes and dietary habits of consumers, including concerns of consumers regarding health and wellness, obesity, product attributes, and ingredients. Introduction of new products and product extensions requires significant development and marketing investment. If our products fail to meet consumer preferences, or we fail to introduce new and improved products on a timely basis, then the return on that investment will be less than anticipated and our strategy to grow sales and profits with investments in marketing and innovation will be less successful. If we fail to anticipate, identify, or react to changes in consumer preferences, or if we fail to introduce new and improved products on a timely basis, we could experience reduced demand for our products, which could in turn cause our operating results to suffer.

We may be adversely impacted by the failure to successfully execute acquisitions and divestitures and integrate acquired operations.

From time to time, the company 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, including future acquisitions and acquisitions completed in the last several years, require us to efficiently integrate the acquired business or businesses, which involves a significant degree of difficulty, including the following:

- integrating the operations and business cultures of the acquired businesses while carrying on the ongoing operations of the businesses we operated prior to the acquisitions;
- managing a significantly larger company than before consummation of the acquisitions;

- the possibility of faulty assumptions underlying our expectations regarding the prospects of the acquired businesses;
- coordinating a greater number of diverse businesses and businesses located in a greater number of geographic locations;
- attracting and retaining the necessary personnel associated with the acquisitions;
- creating uniform standards, controls, procedures, policies and information systems and controlling the costs associated with such matters; and
- expectations about the performance of acquired trademarks and brands and the fair value of such trademarks and brands.

Divestitures have operational risks that may include impairment charges. Divestitures also present unique financial and operational risks, including diverting management attention from the existing core business, separating personnel and financial data and other systems, and adversely affecting existing business relationships with suppliers and customers.

In situations where acquisitions or divestitures are not successfully implemented or completed, or the expected benefits of such acquisitions or divestitures are not otherwise realized, the company's business or financial results could be negatively impacted.

We are subject to increasing legal complexity and could be party to litigation that may adversely affect our business.

Increasing legal complexity may continue to affect our operations and results in material ways. We are or could be subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations, securities laws, employment and personal injury claims, disputes with current or former suppliers, claims by current or former distributors, and intellectual property claims (including claims that we infringed another party's trademarks, copyrights, or patents). Inconsistent standards imposed by governmental authorities can adversely affect our business and increase our exposure to litigation. Litigation involving our independent distributor model and the independent contractor classification of the independent distributors, as well as litigation related to disclosure made by us in connection therewith, if determined adversely, could increase costs, negatively impact our business prospects and the business prospects of our distributors and subject us to incremental liability for their actions. We are also subject to the legal and compliance risks associated with privacy, data collection, protection and management, in particular as it relates to information we collect when we provide products to customers.

Future product recalls or safety concerns could adversely impact our results of operations.

We may be required to recall certain of our products should they be mislabeled, contaminated, spoiled, tampered with or damaged. We may become involved in lawsuits and legal proceedings alleging that the consumption of any of our products causes or caused injury, illness or death. A product recall or an adverse result in any such litigation could have a material adverse effect on our operating and financial results, depending on the costs of the recall, the destruction of product inventory, contractual and other claims made by customers that we supply, competitive reaction and consumer attitudes. Even if a product liability, consumer fraud or other claim is unsuccessful or without merit, the negative publicity surrounding such assertions regarding our products could adversely affect our reputation and brand image. We also could be adversely affected if our customers or consumers in our principal markets lose confidence in the safety and quality of our products.

Consolidation in the retail and foodservice industries could adversely affect our sales and profitability.

If our retail and foodservice customers continue to grow larger due to consolidation in their respective industries, they may demand lower pricing and increased promotional programs. Meeting these demands could adversely affect our sales and profitability.

Our large customers may impose requirements on us that may adversely affect our results of operations.

From time to time, our large customers may re-evaluate or refine their business practices and impose new or revised requirements on us, the distributors, and the customers' other suppliers. The growth of large mass merchandisers, supercenters and dollar stores, together with changes in consumer shopping patterns, have produced large, sophisticated customers with increased buying power and negotiating strength. Current trends among retailers and foodservice customers include fostering high levels of competition among suppliers, demanding new products or increased promotional programs, requiring suppliers to maintain or reduce product prices, reducing shelf space for our products, and requiring product delivery with shorter lead times. These business changes may involve inventory practices, logistics, or other aspects of the customer-supplier relationship. Compliance with requirements imposed by large customers may be costly and may have an adverse effect on our margins and profitability. However, if we fail to meet a large customer's demands, we could lose that customer's business, which also could adversely affect our results of operations.

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

Pension, health care, and workers' compensation costs are increasing and will likely continue to do so. 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 involving labor and employment and employee benefit plans (including employee health care benefits and costs) may impact our operational results.

We have risks related to our pension plans, which could impact the company's liquidity.

The company has noncontributory defined benefit pension plans covering certain employees maintained under the Employee Retirement Income Security Act of 1974 ("ERISA"). The funding obligations for our pension plans are impacted by the performance of the financial markets, including the performance of our common stock, which comprised approximately 11.5% of all the pension plan assets as of December 30, 2017.

If the financial markets do not provide the long-term returns that are expected, the likelihood of the company being required to make larger contributions will increase, which could impact our liquidity. The equity markets can be, and recently have been, very volatile, and therefore our estimate of future contribution requirements can change dramatically in relatively short periods of time. Similarly, changes in interest rates can impact our contribution requirements. In a low interest rate environment, the likelihood of larger required contributions increases. Adverse developments in any of these areas could adversely affect our financial condition, liquidity or results of operations.

Disruption in our supply chain or distribution capabilities from political instability, armed hostilities, incidents of terrorism, natural disasters, weather or labor strikes could have an adverse effect on our business, financial condition and results of operations.

Our ability to make, move and sell products is critical to our success. Damage or disruption to our manufacturing or distribution capabilities, or the manufacturing or distribution capabilities of our suppliers due to weather, natural disaster, fire or explosion, terrorism, pandemics, labor strikes or work stoppages, or adverse outcomes in litigation involving our independent distributor model, could impair our ability to make, move or sell our products. Moreover, terrorist activity, armed conflict, political instability or natural disasters that may occur within or outside the U.S. may disrupt manufacturing, labor, and other business operations. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial conditions and results of operations.

We may be adversely impacted if our information technology systems fail to perform adequately, including with respect to cybersecurity issues.

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our business data, communications, supply chain, order entry and fulfillment, and other business processes. The failure of our information technology systems (including those provided to us by third parties) to perform as we anticipate could disrupt our business and could result in billing, collecting and ordering errors, processing inefficiencies, and the loss of sales and customers, causing our business and results of operations to suffer.

In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, security breaches or intrusions (including theft of customer, consumer or other confidential data), and viruses. If we are unable to prevent physical and electronic break-ins, cyber-attacks and other information security breaches, we may suffer financial and reputational damage, be subject to litigation or incur remediation costs or penalties because of the unauthorized disclosure of confidential information belonging to us or to our partners, customers, suppliers or employees.

Government regulation could adversely impact our results of operations and financial condition.

As a producer and marketer of food items, our production processes, product quality, packaging, labeling, storage, and distribution are subject to regulation by various federal, state and local government entities and agencies. In addition, the marketing and labeling of food products has come under increased scrutiny in recent years, and the food industry has been subject to an increasing number of legal proceedings and claims relating to alleged false or deceptive marketing and labeling under federal, state or local laws or regulations. Uncertainty regarding labeling standards has led to customer confusions and legal challenges.

Compliance with federal, state and local laws and regulations is costly and time consuming. Failure to comply with, or violations of, applicable laws and the regulatory requirements of one or more of these entities and agencies could subject us to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, any of which could result in increased operating costs and adversely affect our results of operations and financial condition. Legal proceedings or claims related to our marketing could damage our reputation and/or adversely affect our business or financial results.

Executive Offices

The address and telephone number of our principal executive offices are 1919 Flowers Circle, Thomasville, Georgia 31757, (229) 226-9110.

Executive Officers of Flowers Foods

The following table sets forth certain information regarding the persons who currently serve as the executive officers of Flowers Foods. Our Board of Directors (the "Board") elects our Executive Chairman of the Board for a one-year term. The Board of Directors has granted the Executive Chairman of the Board the authority to appoint the executive officers to hold office until they resign or are removed.

EXECUTIVE OFFICERS

Name, Age and Office	Business Experience
Allen L. Shiver Age 62 President and Chief Executive Officer	Mr. Shiver has been president and chief executive officer of Flowers Foods since May 2013. He was elected president in 2010, and previously served as executive vice president and chief marketing officer from 2008 to 2009. Mr. Shiver served as president and chief operating officer of Flowers Foods Specialty Group from 2003 until 2008 and as president and chief operating officer of Flowers Snack from 2002 to 2003. Prior to those appointments, Mr. Shiver served as a bakery president, regional vice president, and executive vice president of operations. He joined the company in 1978.
R. Steve Kinsey Age 57 Chief Financial Officer and Chief Administrative Officer	Mr. Kinsey was named chief financial officer and chief administrative officer in May 2017. Previously, Mr. Kinsey served as executive vice president and chief financial officer from 2008 until 2017, and as senior vice president and chief financial officer from 2007 to 2008. Prior to those appointments, Mr. Kinsey served as vice president and corporate controller from 2003 until 2007, and as controller from 2002 until 2003. He served as director of tax from 1998 until 2002 at Flowers Foods and Flowers Industries. At Flowers Industries, Mr. Kinsey also served as tax manager from 1994 until 1998, and as tax associate from 1989 until 1994. He joined the company in 1989.
Bradley K. Alexander Age 59 President Fresh Packaged Bread Business Unit	Mr. Alexander was named president of the Fresh Packaged Bread Business Unit in May 2017. Mr. Alexander served previously as executive vice president and chief operating officer of Flowers Foods beginning in 2014 and as president of Flowers Bakeries from 2008 to 2014. He also served as a regional vice president of Flowers Bakeries, and in various sales, marketing and operational positions, including bakery president and senior vice president of sales and marketing, since joining the company in 1981.
Stephen R. Avera Age 61 Chief Legal Counsel	Mr. Avera was named chief legal counsel in May 2017. He previously served as executive vice president, secretary and general counsel from 2008 until 2017. From 2004 to 2008, Mr. Avera served as senior vice president, secretary and general counsel, and from 2002 until 2004, he served as secretary and general counsel. Mr. Avera also served as vice president and general counsel of Flowers Bakeries from 1998 to 2002, and as associate general counsel and assistant general counsel of Flowers Industries from 1986, when he joined the company, to 1998.
D. Keith Wheeler	

Age 54 Chief Sales Officer	Mr. Wheeler was named chief sales officer in May 2017. Prior to this appointment, Mr. Wheeler served as president of Flowers Bakeries from 2014 until 2017. Mr. Wheeler was senior vice president of Flowers Foods' West Coast Region from 2012 until 2014, and before that, he served in various leadership and operational positions, including bakery president and region controller. He joined the company in 1988.
Robert L. Benton, Jr. Age 60 Chief Supply Chain Officer	Mr. Benton was named chief supply chain officer in May 2017. He had been senior vice president and chief manufacturing officer since 2015. Mr. Benton served as senior vice president of manufacturing and operations support from 2011 until 2015, as vice president of manufacturing from 2001 until 2011, and as director of manufacturing at Flowers Foods and Flowers Industries from 1993 until 2001. At Flowers Industries, Mr. Benton held various manufacturing, engineering and operational management positions, from when he joined the company in 1980 through 1993.
Karyl H. Lauder Age 61 Senior Vice President and Chief Accounting Officer	Ms. Lauder has been senior vice president and chief accounting officer of Flowers Foods since 2008. Ms. Lauder served as vice president and chief accounting officer from 2007 until 2008 and as vice president and operations controller from 2003 to 2007. Prior to those appointments, Ms. Lauder served as a division controller for Flowers Bakeries Group from 1997 to 2003, as a regional controller for Flowers Bakeries, and in several other accounting and supervisory positions since 1978, when she joined the company.

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Name, Age and Office	Business Experience
A.Ryals McMullian Age 48 Chief Strategy Officer	Mr. McMullian was named chief strategy officer in May 2017. Mr. McMullian served as vice president of mergers and acquisitions and deputy general counsel from 2015 until 2017. Mr. McMullian served as vice president and associate general counsel from 2011 until 2015 and as associate general counsel from 2003, when he joined the company, until 2011.
Debo Mukherjee Age 50 Chief Marketing Officer	Mr. Mukherjee joined Flowers as the chief marketing officer in October 2017. Mr. Mukherjee has 25 years of experience in confection, food, health, and nutrition consumer businesses, most recently as founder and owner of Intacta Consulting Group, LLC. Prior to launching Intacta, Mr. Mukherjee served as CEO of Redco Foods, Inc., a subsidiary of Teekanne GmbH, the largest herbal and flavored tea company in Europe, from 2011 to 2015. He also held marketing roles at Mars Inc., Unilever, H.J. Heinz Co. and The Hershey Company.
David M. Roach Age 48 President, Snacking/Specialty Business Unit	Mr. Roach was named president of the Snacking/Specialty Business Unit in May 2017. Prior to this appointment, Mr. Roach served as senior vice president of organics from 2015 until 2017, and as senior vice president of the Central Region from 2010 until 2015. Mr. Roach was president of Flowers Baking Co. of Villa Rica from 2007 to 2010 and served in various sales and supervisory positions since joining the company in 1992.
Tonja Taylor Age 58 Chief Human Resources Officer	Ms. Taylor was named chief human resources officer in May 2017. Ms. Taylor served as senior vice president of human resources from 2013 until 2017 and as vice president of human resources from 2008 until 2013. Ms. Taylor joined the company in 1999 as change management coordinator for a key information technology initiative. Beginning in 2000, she served in a variety of human resources positions, including manager of organizational development, director of organizational development, and managing director of Human Resources.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties

The company currently operates 47 bakeries, of which 45 are owned and two are leased. We believe our properties are in good condition, well maintained, and sufficient for our present operations. During fiscal 2017, DSD Segment facilities, taken as a whole, operated moderately above capacity and Warehouse Segment facilities operated moderately below capacity. Our production plant locations are:

DSD Segment			
State	City	State	City
Alabama	Birmingham	Louisiana	New Orleans
Alabama	Opelika	Maine	Lewiston (2 locations)
Alabama	Tuscaloosa	Nevada	Henderson
Arizona	Phoenix	North Carolina	Goldsboro
Arizona	Tolleson	North Carolina	Jamestown
Arkansas	Batesville	North Carolina	Newton

California	Modesto (Leased)	Oregon	Milwaukie
Florida	Bradenton	Pennsylvania	Oxford
Florida	Jacksonville	Pennsylvania	Philadelphia (Leased)
Florida	Lakeland	Tennessee	Knoxville
Florida	Miami	Texas	Denton
Georgia	Atlanta	Texas	El Paso
Georgia	Savannah	Texas	Houston (2 locations)
Georgia	Thomasville	Texas	San Antonio
Georgia	Villa Rica	Texas	Tyler
Kansas	Lenexa	Vermont	Brattleboro
Kentucky	Bardstown	Virginia	Lynchburg
Louisiana	Baton Rouge	Virginia	Norfolk
Louisiana	Lafayette		

Warehouse Segment

State	City	State	City
Alabama	Montgomery	Georgia	Tucker
Arizona	Mesa	Kentucky	London
Arkansas	Texarkana	Tennessee	Cleveland
Georgia	Suwanee	Tennessee	Crossville

In Thomasville, Georgia, the company leases properties that house shared services functions and our information technology group, and owns several properties for our corporate offices.

Item 3. Legal Proceedings

For a description of all material pending legal proceedings, See Note 23, Commitments and Contingencies, of Notes to Consolidated Financial Statements of this Form 10-K.

Item 4. Mine Safety Disclosures

Not Applicable

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Shares of the company's common stock are quoted on the New York Stock Exchange (the "NYSE") under the symbol "FLO." The following table sets forth quarterly dividend information and the high and low sales prices of the company's common stock on the NYSE as reported in published sources.

	Fiscal 2017			Fiscal 2016		
	Market Price		Dividend	Market Price		Dividend
Quarter	High	Low		High	Low	
First	$21.00	$18.65	$0.1600	$22.08	$15.64	$0.1450
Second	$20.10	$16.88	$0.1700	$19.80	$17.39	$0.1600
Third	$18.93	$16.80	$0.1700	$19.62	$14.35	$0.1600
Fourth	$20.42	$17.71	$0.1700	$20.10	$14.74	$0.1600

Holders

As of February 15, 2018, there were approximately 3,552 holders of record of the company's common stock.

Dividends

The payment of dividends is subject to the discretion of the Board. The Board bases its decisions regarding dividends on, among other things, general business conditions, our financial results, contractual, legal and regulatory restrictions regarding dividend payments and any other factors the Board may consider relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

The following chart sets forth the amounts of securities authorized for issuance under the company's compensation plans as of December 30, 2017 (amounts in thousands, except per share data).

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a)) (c)
Equity compensation plans approved by security holders	73	$ 10.87	5,764,236
Equity compensation plans not approved by security holders	—	—	—
Total	73	$ 10.87	5,764,236

Under the company's 2014 Omnibus Equity and Incentive Compensation Plan (the "Omnibus Plan"), the Board is authorized to grant a variety of stock-based awards, including stock options, restricted stock and deferred stock, to its directors and certain of its employees. The number of securities set forth in column (c) above reflects securities available for issuance as stock options, restricted stock and deferred stock under the company's compensation plans. The number of shares originally available under the Omnibus Plan is 8,000,000 shares. The Omnibus Plan replaced the Flowers Foods' 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009 ("EPIP"), the Stock Appreciation Rights Plan, and the Annual Executive Bonus Plan. As a result, no additional shares will be issued under the EPIP. See Note 18, Stock-Based Compensation, of Notes to Consolidated Financial Statements of this Form 10-K for additional information on equity compensation plans.

Purchases of Equity Securities by the Issuer

The company did not purchase any shares of its common stock during the fourth quarter of fiscal 2017.

Stock Performance Graph

The chart below is a comparison of the cumulative total return (assuming the reinvestment of all dividends paid) of our common stock, Standard & Poor's 500 Index, Standard & Poor's 500 Packaged Foods and Meats Index, and Standard & Poor's MidCap 400 Index for the period December 29, 2012 through December 30, 2017, the last day of our 2017 fiscal year.

	December 29, 2012	December 28, 2013	January 3, 2015	January 2, 2016	December 31, 2016	December 30, 2017
FLOWERS FOODS INC	100.00	142.47	130.99	150.88	145.64	145.92
S&P 500 INDEX	100.00	134.12	153.05	155.19	173.76	211.69
S&P 500 PACKAGED FOODS & MEAT INDEX	100.00	131.61	147.66	173.31	189.14	191.70
S&P MIDCAP 400 INDEX	100.00	135.01	148.81	145.68	175.89	204.47

Companies in the S&P 500 Index, the S&P 500 Packaged Foods and Meats Index, and the S&P MidCap 400 Index are weighted by market capitalization and indexed to $100 at December 29, 2012. Flowers Foods' share price is also indexed to $100 at December 29, 2012. These prices have been adjusted for stock splits.

Item 6. Selected Financial Data

The selected consolidated historical financial data presented below as of and for the fiscal years 2017, 2016, 2015, 2014, and 2013 have been derived from the audited Consolidated Financial Statements of the company. The results of operations presented below are not necessarily indicative of results that may be expected for any future period and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, and our Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in this Form 10-K (amounts in thousands, except per share data).

	For Fiscal Year				
	Fiscal 2017 52 Weeks	Fiscal 2016 52 Weeks	Fiscal 2015 52 Weeks	Fiscal 2014 53 Weeks	Fiscal 2013 52 Weeks
Statement of Income Data:					
Sales	$3,920,733	$3,926,885	$3,778,505	$3,748,973	$3,732,616
Net income	$150,120	$163,776	$189,191	$175,739	$230,894
Net income attributable to Flowers Foods, Inc. common shareholders per basic share	$0.72	$0.79	$0.90	$0.84	$1.11
Net income attributable to Flowers Foods, Inc. common shareholders per diluted share	$0.71	$0.78	$0.89	$0.82	$1.09
Cash dividends per common share	$0.6700	$0.6250	$0.5675	$0.4850	$0.4440
Balance Sheet Data:					
Total assets	$2,659,724	$2,761,068	$2,844,051	$2,408,974	$2,504,014
Long-term debt and capital lease obligations	$820,141	$946,667	$930,022	$724,459	$887,740

Notes to the Selected Financial Data table for additional context

1. Fiscal 2017 includes the impact of restructuring and related impairment charges of $104.1 million, $28.9 million gain on divestiture, $18.3 million of multi-employer pension plan withdrawal costs, $6.0 million of legal settlements, and a $4.6 million pension plan settlement loss which affect comparability. During fiscal 2017, the company recognized a $48.2 million net tax benefit as a result of the Act. Additional information on the tax impacts of the Act is presented in Note 22, Income Taxes, of Notes to Consolidated Financial Statements of this Form 10-K.
2. Fiscal 2016 includes the impact of a $6.6 million pension settlement loss, $24.9 million of impairment charges, $10.5 million of legal settlements (including $0.3 million of related tax liabilities) which affect comparability, the issuance of our $400.0 million senior notes due 2026, and $1.9 million of debt issuance costs recognized as interest expense (for a loss on extinguishment of debt) at the time we paid off $367.5 million of outstanding indebtedness under two of our term loans.
3. Fiscal 2015 includes the results of DKB and Alpine as of and from the date of each acquisition. See Note 10, Acquisitions, of Notes to Consolidated Financial Statements of this Form 10-K for details of these acquisitions.
4. During the fourth quarter of fiscal 2014, we revised net sales. Historically, certain immaterial discounts had been recorded as an expense to selling, distribution and administrative costs. These discounts are now recorded as contra revenue. These revisions were made for all periods presented in the fiscal 2014 Form 10-K.
5. Fiscal 2014 includes the impact of a $15.4 million pension settlement loss.

6. Fiscal 2013 includes the recording of a bargain purchase gain of $50.1 million at the time of the Sara Lee California acquisition.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
The following discussion should be read in conjunction with Item 1., Business, and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in this Form 10-K. The following information contains forward-looking statements which involve certain risks and uncertainties. See Forward-Looking Statements at the beginning of this Form 10-K.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is segregated into four sections, including:

- Executive overview — provides a summary of our operating performance and cash flows, industry trends, and our strategic initiatives.
- Critical accounting estimates — describes the accounting areas where management makes critical estimates to report our financial condition and results of operations.
- Results of operations — an analysis of the company's consolidated results of operations for the two comparative periods presented in the Consolidated Financial Statements.
- Liquidity, capital resources and financial position — an analysis of cash flow, contractual obligations, and certain other matters affecting the company's financial position.

MATTERS AFFECTING COMPARABILITY

Detailed below are matters affecting comparability as well as other significant events that will provide additional context while reading this discussion:

	Fiscal 2017 52 weeks	Fiscal 2016 52 weeks	Fiscal 2015 52 weeks	Footnote Disclosure
	(Amounts in thousands)			
Project Centennial consulting costs	$37,306	$6,324	—	Note 5
Gain on divestiture	(28,875)	—	—	Note 6
Restructuring and related impairment charges	104,130	—	—	Note 5
Impairment of assets	—	24,877	3,771	Notes 8, 9
Facility closure costs	—	—	736	
Pension plan settlement losses	4,649	6,646	—	Note 21
Multi-employer pension plan withdrawal costs	18,268	—	—	Note 21
Acquisition-related costs	—	—	6,187	Note 10
Legal settlements and related tax liabilities	5,978	10,500	—	Note 23
Lease termination costs	565	—	—	
Loss on extinguishment of debt	—	1,900	—	Note 14
	$142,021	$50,247	$10,694	

In fiscal 2017, we recognized an income tax benefit of $48.2 million related to the estimated benefit of the Act, which partially offset the net expense amount of the pre-tax items detailed above.

Project Centennial consulting costs. During the second quarter of fiscal 2016, we partnered with a globally recognized consulting firm and launched Project Centennial, an enterprise-wide business and operational review. As of the end of fiscal 2016, we had completed the diagnostic phase and entered the implementation phase of the project. Key initiatives of the project are outlined in Item 1., Business, of this Form 10-K. Consulting costs associated with the project in fiscal 2017 and 2016 were $37.3 million and $6.3 million, respectively. We anticipate consulting costs to be in the range of $8.0 million to $10.0 million in fiscal 2018. These costs were and will continue to be reflected in the selling, distribution and administrative expenses line item of the Consolidated Statements of Income.

Gain on divestiture of the non-core mix manufacturing business. On January 14, 2017, we completed the sale of our non-core mix manufacturing business located in Cedar Rapids, Iowa and received proceeds, net of a working capital adjustment, of $41.2 million and recognized a gain of $28.9 million in our fiscal 2017 results of operations. The mix manufacturing business was previously included in our Warehouse Segment.

Restructuring and related impairment charges associated with Project Centennial. The following table details charges recorded by segment in fiscal 2017 (amounts in thousands):

	DSD Segment	Warehouse Segment	Unallocated Corporate	Total
	(Amounts in thousands)			
Employee termination benefits and other cash charges	$24,914	$ 5,633	$ 3,982	$34,529
Property, plant and equipment impairments	—	3,354	—	3,354
Trademark impairments	55,112	11,135	—	66,247
	$80,026	$ 20,122	$ 3,982	$104,130

Employee termination benefits and other cash charges recorded in fiscal 2017 included the VSIP, severance related to other reorganizational initiatives, severance related to the plant closure, and relocation costs due to the ongoing company reorganization. The VSIP was made available to certain employees who met the VSIP's age, length-of-service, and business function criteria. Approximately 325 employees elected to participate in the VSIP and they accrued enhanced separation benefits totaling $29.7 million. We paid $4.6 million of these benefits in fiscal 2017 and the remainder has been or will be paid in the first quarter of fiscal 2018. Other reorganizational initiatives we completed during the fourth quarter of fiscal 2017 resulted in severance charges of $2.0 million. Additionally, on August 9, 2017, the company announced the closure of a Warehouse Segment snack cake plant in Winston-Salem, North Carolina as part of its supply chain optimization initiative under Project Centennial. The facility closed in November of fiscal 2017 and a portion of the production was transitioned to other facilities. Closure costs included the recognition of impairments related to property, plant and equipment of $3.4 million and severance costs of $1.0 million. We incurred additional reorganization costs, primarily relocation costs, of $1.9 million during fiscal 2017 and anticipate incurring an additional $4.0 million to $5.0 million in fiscal 2018. We substantially completed the brand rationalization study in the third quarter of fiscal 2017, which resulted in impairment charges for certain trademarks that we either no longer intend to use or plan to use on a more limited basis.

Impairment of assets. The table below details asset impairments recorded in 2016 and 2015, all of which related to assets of the DSD Segment. In fiscal 2016, we recorded asset impairment charges for certain trademarks acquired in the Lepage and Acquired Hostess Bread Assets acquisitions, primarily resulting from a brand rationalization study we began in fiscal 2016 as part of Project Centennial. This study was substantially completed in the third quarter of fiscal 2017. We also recorded impairments on certain assets held for sale, which were subsequently sold for proceeds of $7.4 million. Asset impairment charges recorded in fiscal 2015 related to assets held for sale and a production line that we no longer intended to use.

	Fiscal 2016 52 weeks	Fiscal 2015 52 weeks
Property, plant and equipment impairments	$9,877	$3,771
Trademark impairments	15,000	—
	$24,877	$3,771

Issuance of $400.0 million of senior notes and payoff of existing term loans. On September 28, 2016, we issued $400.0 million of ten year senior notes (the "2026 notes") which bear interest at 3.50% per annum. Proceeds from the 2026 notes were used to repay debt currently outstanding under our existing term loan facilities and for general corporate purposes, including repayment of a portion of our accounts receivable securitization facility ("the facility"). Debt issuance costs of $1.9 million associated with the term loan facilities were recorded as interest expense in our fiscal 2016 results of operations. See Note 14, Debt, Lease and Other Commitments, of Notes to Consolidated Financial Statements of this Form 10-K for additional information.

Pension plan settlement losses. At the beginning of fiscal 2016, the company began offering retired and terminated vested pension plan participants not yet receiving their benefit payments the option to elect to receive their benefit as a single lump sum payment. Settlement charges of $4.6 million and $6.6 million for fiscal 2017 and fiscal 2016, respectively, were triggered as a result of lump sum distributions paid in each fiscal year. Settlement charges will be recorded in fiscal 2018 due to the level of lump sum payments that have occurred in early fiscal 2018.

Multi-employer pension plan withdrawal costs ("MEPP" costs). On August 18, 2017, the union participants of the Bakery and Confectionary Union and Industry International Pension Fund (the "Fund") at our Lakeland, Florida plant voted to withdraw from the Fund in the most recent collective bargaining agreement. This resulted in the recognition of an $18.3 million pension plan withdrawal liability, including transition payments, in the DSD Segment. The transition payments were made on November 3, 2017, and we anticipate the withdrawal liability to be paid in fiscal 2018.

Legal settlements. In fiscal 2017, we reached agreements to settle distributor-related litigation in the aggregate amount of $6.0 million, including attorney's fees. Of this amount, $0.25 million was paid in fiscal 2017 and the remainder is expected to be paid in fiscal 2018. In fiscal 2016, we reached agreements to settle distributor-related litigation in the aggregate amount of $10.5 million, including attorney's fees and related tax liabilities, all of which was paid in fiscal 2017. All of these settlements were recorded in our DSD Segment's selling, distribution and administrative expenses in our Consolidated Statements of Income.

Income tax benefit related to the impact of the Tax Cuts and Jobs Act of 2017. In the fourth quarter of fiscal 2017, we recognized an income tax benefit of $48.2 million related to the estimated benefit of the Act which was enacted on December 22, 2017. The benefit primarily resulted from the revaluation of the company's net deferred tax liability as of a result of the decrease in the corporate tax rate.

Nationwide launch of Dave's Killer Bread brand. At the beginning of the second quarter of fiscal 2016, we began the national rollout of our organic, non-GMO DKB brand on our DSD network and had completed the rollout as of the end of fiscal 2016. Sales of the DKB brand, including sales from the nationwide launch, were included in acquisition sales until the first anniversary of the acquisition on September 12, 2016. After this date, these sales were and will continue to be included in core or expansion markets (defined as markets we entered in the last five years) as determined by the market in which they are sold.

Alpine Valley Bread Company acquisition. On October 13, 2015, we completed the acquisition of Alpine, a family-owned producer of certified organic and all-natural breads located in Mesa, Arizona, for $121.9 million in cash and stock. Alpine is included in our Warehouse Segment. The acquisition expanded our penetration into the organic market and provides additional organic production capacity. We funded the cash portion of the purchase price for the Alpine acquisition with our existing credit facilities and also issued 12,602 shares of our common stock to fund the equity portion of the purchase price.

Dave's Killer Bread acquisition. On September 12, 2015, we completed the acquisition of DKB for total cash payments of $282.1 million inclusive of payments for certain tax benefits. We believe the acquisition strengthened our position as the second-largest baker in the U.S. by giving us greater access to the fast growing organic bread category and expanding our geographic reach into the Pacific Northwest. DKB operates one production facility in Milwaukie, Oregon and is included in our DSD Segment. We funded the purchase price of the DKB acquisition with cash on hand and borrowings from our existing credit facilities.

Reporting Periods. The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2017, 2016 and 2015 consisted of 52 weeks. Fiscal 2018 will consist of 52 weeks.

EXECUTIVE OVERVIEW

We are the second largest producer and marketer of packaged bakery foods in the U.S. with fiscal 2017 sales of $3.9 billion. We operate in the highly competitive fresh bakery market and our product offerings include fresh breads, buns, rolls, snack cakes and tortillas, as well as frozen breads and rolls. Our business is currently managed based on delivery method of our products and we have two segments: DSD Segment and Warehouse Segment. We operate 47 plants in 18 states that produce a wide range of breads, buns, rolls, snack cakes, and tortillas. See Item 1., Business, of this Form 10-K for information regarding our segments, customers and brands, business strategies, strengths and core competencies, and competition and risks.

Summary of Operating Results, Cash Flows and Financial Condition:

Sales in fiscal 2017 decreased 0.2% as compared to fiscal 2016 primarily as a result of the divestiture of the mix manufacturing business in January 2017 and softness in the fresh bakery category, partially offset by significant sales growth for our branded organic products. Sales increased 3.9% in fiscal 2016 due to the DKB and Alpine acquisitions, both of which were completed in the second half of fiscal 2015, and the nationwide launch of the DKB brand in our DSD markets in fiscal 2016.

Net income decreased 8.3% in fiscal 2017 as compared to fiscal 2016 primarily due to the restructuring and related impairment charges, the MEPP costs and incremental Project Centennial consulting costs, partially offset by the income tax benefit recognized from passage of the Act, the current year gain on divestiture and the prior year asset impairment charges. Net income in fiscal 2016 decreased 13.4% as compared to fiscal 2015 primarily due to higher asset impairment charges, and increased legal costs attributable to ongoing and additional litigation, including distributor lawsuits, and related legal settlements. Additionally, increased consulting costs and pension settlement losses incurred in fiscal 2016 negatively impacted net income, partially offset by acquisition-related costs incurred in fiscal 2015.

In fiscal 2017, we generated net cash flows from operations of $297.4 million and invested $75.2 million in capital expenditures. We reduced our total indebtedness $124.0 million, and extended the maturity dates of the facility and the credit facility to September 28, 2019 and November 29, 2022, respectively. We paid $141.0 million in dividends to our shareholders in fiscal 2017. In fiscal 2016, we generated net cash flows from operations of $356.6 million and invested $101.7 million in capital expenditures. We converted certain of our variable rate, shorter-term debt arrangements to significantly longer-term, fixed rate debt with the issuance of the 2026 notes and the payoff of our term loans, and reduced our total indebtedness $55.6 million. Additionally, in fiscal 2016, we repurchased 6.9 million shares of our common stock for $126.3 million and paid $131.1 million in dividends to our shareholders.

Industry Trends

The chart below details the sales change in dollars and units of the Fresh Packaged Breads category for the years 2015, 2016 and 2017:

- We hold a 15.4 dollar share of the Fresh Packaged Breads category. (Source: Flowers Custom Database – IRI Total US MultiOutlet + Convenience Store for calendar year 2017 ending 12/31/17)
- We hold an 8.1 dollar share of the Commercial Cake category. (Source: Flowers Custom Database – IRI Total US MultiOutlet + Convenience Store for calendar year 2017 ending 12/31/17)
- We expect stable consumer demand for fresh baked bakery foods.
- The Fresh Packaged Breads category is highly competitive.
- We anticipate our growth will be driven by our organic bread brands, partially offset by softer demand for some of our other product offerings.

Critical Accounting Estimates

The company’s discussion and analysis of its results of operations and financial condition are based upon the Consolidated Financial Statements of the company, which have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). The preparation of these financial statements requires the company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, and cash flows during the reporting period. On an ongoing basis, the company evaluates its estimates, including those related to customer programs and incentives, bad debts, raw materials, inventories, long-lived assets, intangible assets, income taxes, restructuring, pensions and other post-retirement benefits, and contingencies and litigation. The company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The selection and disclosure of the company's critical accounting estimates have been discussed with the company's audit committee. Note 2, Summary of Significant Accounting Policies, of Notes to Consolidated Financial Statements of this Form 10-K includes a summary of the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. The following table lists, in no particular order of importance, areas of critical assumptions and estimates used in the preparation of the Consolidated Financial Statements. Additional detail can be found in the following notes:

Critical Accounting Estimate	Note
Revenue recognition	—
Derivative financial instruments	11
Long-lived assets	—
Goodwill and other intangible assets	9
Self-insurance reserves	23
Income tax expense (benefit) and accruals	22
Postretirement plans	21
Stock-based compensation	18
Commitments and contingencies	23

Revenue Recognition. The company recognizes revenue from the sale of its products when title and risk of loss pass to the customer or consumer. The company records both direct and estimated reductions to gross revenue for customer programs and incentive offerings at the time the incentive is offered or at the time of revenue recognition for the underlying transaction that results in progress by the customer towards earning the incentive. These allowances include price promotion discounts, coupons, customer rebates, cooperative advertising, and product returns. Price promotion discount expense is recorded as a reduction to gross sales when the discounted product is sold to the customer. Although we do not expect it to be material, see Note 3, Recent Accounting Pronouncements, of Notes to Consolidated Financial Statements of this Form 10-K for information regarding the FASB's revenue recognition guidance issued in May 2014, which is effective for the company beginning in fiscal 2018.

Derivative Financial Instruments. The company's cost of primary raw materials is highly correlated to certain commodities markets. Commodities, such as our baking ingredients, experience price fluctuations. If actual market conditions become significantly different than those anticipated, raw material prices could increase significantly, adversely affecting our results of operations. We enter into forward purchase agreements and other derivative financial instruments qualifying for hedge accounting to manage the impact of volatility in raw material prices. The company measures the fair value of its derivative portfolio using 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. When quoted market prices for identical assets or liabilities are not available, the company bases fair value on internally developed models that use current market observable inputs, such as exchange-quoted futures prices and yield curves. See Note 3, Recent Accounting Pronouncements, of Notes to Consolidated Financial Statements of this Form 10-K for information regarding the FASB's hedge accounting guidance issued in August 2017, which the company plans to early adopt in the first quarter of fiscal 2018.

Valuation of Long-Lived Assets, Goodwill and Other Intangible Assets. The company records an impairment charge to property, plant and equipment, goodwill and intangible assets in accordance with applicable accounting standards when, based on certain indicators of impairment, it believes such assets have experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of these underlying assets could result in losses or an inability to recover the carrying value of the asset that may not be reflected in the asset's current carrying value, thereby possibly requiring impairment charges in the future. Impairment charges recorded in fiscal 2017, 2016 and 2015 are discussed above in the "Matters Affecting Comparability" section.

The company evaluates the recoverability of the carrying value of its goodwill on an annual basis or at a time when events occur that indicate the carrying value of the goodwill may be impaired using a two-step process. We have elected not to perform the qualitative approach. The first step of this evaluation is performed by calculating the fair value of the business segment, or reporting unit, with which the goodwill is associated. Our reporting units are at the segment level. Each segment consists of several components. These components are aggregated by their respective delivery method into the Warehouse Segment and DSD Segment. These segments rely on reciprocal baking among their components, cross-selling their products/brands within the segment, and utilizing the same delivery method. Marketing, research and development and capital projects are measured at the segment level. We believe these factors support our reporting unit classifications. This fair value is compared to the carrying value of the reporting unit, and if less than the carrying value, the goodwill is evaluated for potential impairment under step two. Under step two of this calculation, goodwill is measured for potential impairment by comparing the implied fair value of the reporting unit's goodwill, determined in the same manner as a business combination, with the carrying amount of the goodwill.

Our annual evaluation of goodwill impairment requires management judgment and the use of estimates and assumptions to determine the fair value of our reporting units. Fair value is estimated using standard valuation methodologies incorporating market participant considerations and management's assumptions on revenue, revenue growth rates, operating margins, discount rates, and EBITDA (defined as earnings before interest, taxes, depreciation and amortization). Our estimates can significantly affect the outcome of the test. We perform the fair value assessment using the income and market approach. We use this data to complete a separate fair value analysis for each reporting unit. Changes in our forecasted operating results and other assumptions could materially affect these estimates. This test is performed in the fourth quarter of each fiscal year unless circumstances require this analysis to be completed sooner. The income approach is tested using a sensitivity analysis to changes in the discount rate and yield a sufficient buffer to significant variances in our estimates. The estimated fair values of our reporting units exceeded our carrying values in excess of $400 million in each reporting unit in fiscal 2017. Based on management's evaluation, no impairment charges relating to goodwill were recorded for the fiscal years 2017, 2016 or 2015.

In connection with acquisitions, the company has acquired trademarks, customer lists, and non-compete agreements, a portion of which are amortizable. The company evaluates these assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The undiscounted future cash flows of each intangible asset are compared to the carrying amount, and if less than the carrying value, the intangible asset is written down to the extent the carrying amount exceeds the fair value. The fair value is computed using the same approach described above for goodwill and includes the same risks and estimates. The fair value of the trademarks could be less than our carrying value if any of our four material assumptions in our fair value analysis: (a) weighted average cost of capital; (b) long-term sales growth rates; (c) forecasted operating margins; and (d) market multiples do not meet our expectations, thereby requiring us to record an asset impairment. We use the multi-period excess earnings and relief from royalty methods to value these intangibles. The method used for impairment testing purposes is consistent with the valuation method employed at acquisition of the intangible asset. Impairment charges recorded in fiscal 2017 related to amortizable intangible assets totaled $47.7 million and are discussed above in the "Matters Affecting Comparability" section. There were no impairment charges related to amortizable intangible assets for fiscal years 2016 or 2015.

As of December 30, 2017, the company also owns $206.6 million of trademarks acquired in acquisitions that are indefinite-lived intangible assets not subject to amortization. The company evaluates the recoverability by comparing the fair value to the carrying value of these intangible assets on an annual basis or at a time when events occur that indicate the carrying value may be impaired. In addition, the assets are evaluated to determine whether events and circumstances continue to support an indefinite life. The fair value is compared to the carrying value of the intangible asset, and if less than the carrying value, the intangible asset is written down to fair value. There are certain inherent risks included in our expectations about the performance of acquired trademarks and brands. If we are unable to implement our growth strategies for these acquired intangible assets as expected, it could adversely impact the carrying value of the brands. The fair value of the trademarks could be less than our carrying value if any of our four material assumptions in our fair value analysis: (a) weighted average cost of capital; (b) long-term sales growth rates; (c) forecasted operating margins; and (d) market multiples do not meet our expectations, thereby requiring us to record an asset impairment. As discussed above, during fiscal years 2017 and 2016, we recorded asset impairment charges of $18.5 million and $15.0 million, respectively, on certain indefinite-lived trademarks and determined these trademarks no longer are deemed to have an indefinite life. During fiscal 2015, in conjunction with the DKB and Alpine acquisitions, we determined that the Barowsky's trademark acquired in the Lepage acquisition would be used on a more regional basis as an organic brand rather than distributed nationally, and therefore, this intangible asset was deemed to have a finite life and was assigned a life of 35 years.

Self-Insurance Reserves. We are self-insured for various levels of general liability, auto liability, workers' compensation, and employee medical and dental coverage. Insurance reserves are calculated on an undiscounted basis and are based on actual claim data and estimates of incurred but not reported claims developed utilizing historical claim trends. Projected settlements and incurred but not reported claims are estimated based on pending claims and historical trends and data. Though the company does not expect them to do so, actual settlements and claims could differ materially from those estimated. Material differences in actual settlements and claims could have an adverse effect on our financial condition and results of operations.

Income Tax Expense (Benefit) and Accruals. The annual tax rate is based on our income, statutory tax rates, and tax planning opportunities available to us in the various jurisdictions in which we operate. Changes in statutory rates and tax laws in jurisdictions in which we operate may have a material effect on the annual tax rate. The effect of these changes, if any, would be recognized as a discrete item upon enactment.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenues and expenses. Deferred tax assets and liabilities are measured based on the enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. As such, in December 2017, the company revalued its deferred tax assets and liabilities as a result of passage of the Act. Additional information on the tax impacts of the Act is presented in Note 22, Income Taxes, of Notes to Consolidated Financial Statements of this Form 10-K.

Our income tax expense, deferred tax assets and liabilities, and reserve for uncertain tax benefits reflect our best assessment of future taxes to be paid in the jurisdictions in which we operate. The company records a valuation allowance to reduce its deferred tax assets if we believe it is more likely than not that some or all of the deferred assets will not be realized. While the company considers future taxable income and ongoing prudent and feasible tax strategies in assessing the need for a valuation allowance, if these estimates and assumptions change in the future, the company may be required to adjust its valuation allowance, which could result in a charge to, or an increase in, income in the period such determination is made.

Periodically, we face audits from federal and state tax authorities, which can result in challenges regarding the timing and amount of income or deductions. We provide reserves for potential exposures when we consider it more likely than not that a taxing authority may take a sustainable position on a matter contrary to our position. We evaluate these reserves on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements that may impact the ultimate payment of such potential exposures. While the ultimate outcome of audits cannot be predicted with certainty, we do not currently believe that current or future audits will have a material adverse effect on our consolidated financial condition or results of operations. The company is no longer subject to federal examination for years prior to fiscal 2015.

Postretirement Plans. The company records pension costs and benefit obligations related to its defined benefit plans based on actuarial valuations. These valuations reflect key assumptions determined by management, including the discount rate, expected long-term rate of return on plan assets and mortality. Material changes in pension costs and in benefit obligations may occur in the future due to experience that is different than assumed and changes in these assumptions.

Effective January 1, 2006, the company curtailed its largest defined benefit plan (“Plan No. 1”) that covered the majority of its workforce. Benefits under this plan are frozen, and no future benefits will accrue under this plan. In addition to Plan No. 1, the company sponsors an ongoing defined benefit pension plan for union employees (“Plan No. 2”) and a frozen nonqualified plan covering former Tasty executives.

On January 1, 2016, the company began providing retired and terminated vested pension plan participants who have not yet started their payments the option to receive their benefit as a single lump sum payment. Participants can elect this option when they retire or when they leave the company. This change supports our long-term pension risk management strategy. Lump sum payments made in 2017 and 2016 triggered settlement charges as detailed in the table below (amounts in thousands). Based on known activity in 2018, primarily related to the VSIP, the company expects to record settlement charges beginning in the first quarter of fiscal 2018. The company recorded pension income on our qualified defined benefit plans and nonqualified plan in fiscal 2017, 2016 and 2015 as detailed in the table below (amounts in thousands). We expect pension income of approximately $1.7 million on our qualified defined benefit plans and nonqualified plan for fiscal 2018 excluding any potential settlement losses.

	Fiscal 2017 52 weeks	Fiscal 2016 52 weeks	Fiscal 2015 52 weeks
Pension income	$(5,320)	$(4,451)	$(5,788)
Pension plan settlement losses	4,649	6,646	—
Net pension cost (income)	$(671)	$2,195	$(5,788)

In 2016, we refined the method used to estimate service cost and interest cost components of net periodic benefit costs. Historically, we estimated the service cost and interest cost components using a single weighted average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. Currently, we use a spot rate approach to estimate these components of benefit cost by applying the specific spot rates along the yield curve to the relevant projected cash flows, as we believe this provides a better estimate of service and interest costs. We considered this a change in estimate and accordingly, accounted for it on a prospective basis beginning in 2016. This change does not affect the measurement of our total benefit obligation.

On December 31, 2017, the company adopted a de-risking investment strategy for its pension assets. As the funded status of the plans increases, over time the targeted allocation to return seeking assets will be reduced and the targeted allocation to fixed-income assets will be increased to better manage the company's pension liability and reduce funded status volatility. Based on the funded status of the plans as of December 31, 2017, the asset allocation for the Flowers Foods' pension plans has been adjusted to 35% equity securities, 35% fixed-income securities, 25% other diversifying strategies (including absolute return funds and hedged equity funds), and 5% short-term investments and cash. For the details of our pension plan assets, see Note 21, Postretirement Plans, of Notes to Consolidated Financial Statements of this Form 10-K.

In developing the expected long-term rate of return on plan assets at each measurement date, the company considers the plan assets' historical actual returns, targeted asset allocations, and the anticipated future economic environment and long-term performance of the individual asset classes, based on the company's investment strategy. While appropriate consideration is given to recent and historical investment performance, the assumption represents management's best estimate of the long-term prospective return. Further, pension costs do not include an explicit expense assumption, and therefore the return on assets rate reflects the long-term expected return, net of expenses. Based on these factors, the long-term rate of return assumption for the plans was set at 8.0% for fiscal 2017 and 6.4% for fiscal 2018. The change in assumption from fiscal 2017 to fiscal 2018 was the result of the change in the asset allocation referenced above. The de-risking investment strategy may result in additional changes in 2018 as the company explores the option of making additional contributions.

The company utilizes the Society of Actuaries' ("SOA") published mortality tables and improvement scales in developing their best estimates of mortality. In October 2014, the SOA published final reports on their "standard" mortality table ("RP-2014") and mortality improvement scale ("MP-2014"). In 2017, the SOA published a revised mortality improvement scale ("MP-2017"). Based on an evaluation of the information released in 2017, the company updated the mortality assumptions for purposes of measuring pension benefit obligations at year-end 2017. The company will continue to use the standard mortality tables and mortality improvement scale with adjustments to the base table as applicable: 30% adjustment for Plan No. 1, based on experience within the plan, blue collar adjustment for Plan No. 2 and no adjustment for the nonqualified plan.

The company determines the fair value of substantially all of its plans' assets utilizing market quotes rather than developing "smoothed" values, "market related" values, or other modeling techniques. Plan asset gains or losses in a given year are included with other actuarial gains and losses due to remeasurement of the plans' projected benefit obligations ("PBO"). If the total unrecognized gain or loss exceeds 10% of the larger of (i) the PBO or (ii) the market value of plan assets, the excess of the total unrecognized gain or loss is amortized over the expected average future lifetime of participants in the frozen pension plans. Prior service cost or credit, which represents the effect on plan liabilities due to plan amendments, is amortized over the average remaining service period of active covered employees. The total unrecognized loss and prior service cost in accumulated other comprehensive income ("AOCI") as of December 30, 2017 for the pension plans the company sponsors is $131.4 million. Amortization of this unrecognized loss and prior service cost during fiscal 2018 is expected to be approximately $6.4 million. To the extent that this unrecognized loss and prior service cost is subsequently recognized, the loss will increase the company's pension costs in the future.

A sensitivity analysis of fiscal 2017 pension costs on a pre-tax basis and year-end benefit obligations for our qualified plans is presented in the table below (amounts in thousands) to changes in the discount rate and expected long-term rate of return on plan assets ("EROA"):

	0.25%	(0.25%)	0.25%	(0.25%)
Percentage increase (decrease)	Discount Rate	Discount Rate	EROA	EROA
Estimated change in FY 2017 pension costs	$ (249)	$ 255	$ (799)	$ 799
Estimated change in FY 2017 year-end benefit obligations	$ (11,052)	$ 11,616	N/A	N/A

In January of fiscal 2018, the company made a $10.0 million contribution to our qualified pension plans, and expects to pay $0.3 million in nonqualified pension benefits from corporate assets during fiscal 2018.

Stock-based compensation. Stock-based compensation expense for all share-based payment awards granted is determined based on the grant date fair value. The company recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the share-based payment award.

We grant performance stock awards that separately have a market and performance condition. The expense computed for the total shareholder return shares ("TSR") is fixed and recognized on a straight-line basis over the vesting period. The expense computed for the return on invested capital ("ROIC") shares can change depending on the attainment of performance condition goals. The expense for the ROIC shares can be within a range of 0% to 125% of the target. There is a possibility that this expense component will change in subsequent quarters depending on how the company performs relative to the ROIC target. The payouts for the TSR and ROIC shares to be issued in fiscal 2018 (on the 2016 awards) are estimated to be 12.5% and 70%, respectively. See Note 18, Stock-Based Compensation, of Notes to Consolidated Financial Statements of this Form 10-K for additional information.

Commitments and contingencies. The company and its subsidiaries from time to time are parties to, or targets of, lawsuits, claims, investigations and proceedings, including personal injury, commercial, contract, environmental, antitrust, product liability, health and safety and employment matters, including lawsuits related to the independent distributors, which are being handled and defended in the ordinary course of business. Loss contingencies are recorded at the time it is probable an asset is impaired or a liability has been incurred and the amount can be reasonably estimated. For litigation claims, the company considers the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the loss. Losses are recorded in selling, distribution and administrative expense in the Consolidated Statements of Income.

Results of Operations

The company's results of operations, expressed as a percentage of sales, are set forth below for fiscal 2017 and 2016 (by segment):

	Fiscal 2017	Fiscal 2016	Percentage of Sales Fiscal 2017	Percentage of Sales Fiscal 2016	Increase (Decrease) Dollars	Increase (Decrease) %
	52 weeks	52 weeks	52 weeks	52 weeks		
	(Amounts in thousands, except percentages)					
Sales						
DSD Segment	$3,318,563	$3,284,177	84.6	83.6	$34,386	1.0
Warehouse Segment	602,170	642,708	15.4	16.4	(40,538)	(6.3)
Total	$3,920,733	$3,926,885	100.0	100.0	$(6,152)	(0.2)
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)						
DSD Segment (1)	$1,577,824	$1,569,861	47.5	47.8	$7,963	0.5
Warehouse Segment (1)	431,239	456,506	71.6	71.0	(25,267)	(5.5)
Total	$2,009,063	$2,026,367	51.2	51.6	$(17,304)	(0.9)
Selling, distribution and administrative expenses						
DSD Segment (1)	$1,313,291	$1,308,935	39.6	39.9	$4,356	0.3
Warehouse Segment (1)	104,304	107,599	17.3	16.7	(3,295)	(3.1)
Corporate (2)	86,272	47,702	—	—	38,570	80.9
Total	$1,503,867	$1,464,236	38.4	37.3	$39,631	2.7
Gain on divestiture						
Warehouse Segment (1)	$28,875	$—	4.8	—	$28,875	NM
Total	$28,875	$—	0.7	—	$28,875	NM
Multi-employer pension plan withdrawal costs						
DSD Segment (1)	$18,268	$—	0.6	—	$18,268	NM
Total	$18,268	$—	0.5	—	$18,268	NM
Pension plan settlement loss						
Corporate (2)	$4,649	$6,646	—	—	$(1,997)	NM
Total	$4,649	$6,646	0.1	0.2	$(1,997)	NM
Restructuring and related impairment charges						
DSD Segment (1)	$80,026	$—	2.4	—	$80,026	NM
Warehouse Segment (1)	20,122	—	3.3	—	20,122	NM
Corporate (2)	3,982	—	—	—	3,982	NM
Total	$104,130	$—	2.7	—	$104,130	NM
Impairment of assets						
DSD Segment (1)	$—	$24,877	0.0	0.8	$(24,877)	NM

Total	$—	$24,877	0.0	0.6	$(24,877)	NM
Depreciation and amortization						
DSD Segment (1)	$126,485	$120,009	3.8	3.7	$6,476	5.4
Warehouse Segment (1)	20,642	20,138	3.4	3.1	504	2.5
Corporate (2)	(408)	722	—	—	(1,130)	NM
Total	$146,719	$140,869	3.7	3.6	$5,850	4.2
Income from operations						
DSD Segment (1)	$202,669	$260,495	6.1	7.9	$(57,826)	(22.2)
Warehouse Segment (1)	54,738	58,465	9.1	9.1	(3,727)	(6.4)
Corporate (2)	(94,495)	(55,070)	—	—	(39,425)	(71.6)
Total	$162,912	$263,890	4.2	6.7	$(100,978)	(38.3)
Interest expense, net	$13,619	$14,353	0.3	0.4	$(734)	(5.1)
Income tax expense (benefit)	$(827)	$85,761	(0.0)	2.2	$(86,588)	(101.0)
Net income	$150,120	$163,776	3.8	4.2	$(13,656)	(8.3)
Comprehensive income	$148,844	$177,293	3.8	4.5	$(28,449)	(16.0)

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

NM – the computation is not meaningful

Percentages may not add due to rounding.

The company’s results of operations, expressed as a percentage of sales, are set forth below for fiscal 2016 and 2015 (by segment):

	Fiscal 2016 52 weeks	Fiscal 2015 52 weeks	Percentage of Sales Fiscal 2016 52 weeks	Fiscal 2015 52 weeks	Increase (Decrease) Dollars	%
	(Amounts in thousands, except percentages)					
Sales						
DSD Segment	$3,284,177	$3,179,348	83.6	84.1	$104,829	3.3
Warehouse Segment	642,708	599,157	16.4	15.9	43,551	7.3
Total	$3,926,885	$3,778,505	100.0	100.0	$148,380	3.9
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)						
DSD Segment (1)	$1,569,861	$1,532,738	47.8	48.2	$37,123	2.4
Warehouse Segment (1)	456,506	430,415	71.0	71.8	26,091	6.1
Total	$2,026,367	$1,963,153	51.6	52.0	$63,214	3.2
Selling, distribution and administrative expenses						
DSD Segment (1)	$1,308,935	$1,224,677	39.9	38.5	$84,258	6.9
Warehouse Segment (1)	107,599	96,742	16.7	16.1	10,857	11.2
Corporate (2)	47,702	60,108	—	—	(12,406)	(20.6)
Total	$1,464,236	$1,381,527	37.3	36.6	$82,709	6.0
Pension plan settlement loss						
Corporate (2)	$6,646	$—	—	—	$6,646	NM
Total	$6,646	$—	0.2	—	$6,646	NM
Impairment of assets						
DSD Segment (1)	$24,877	$3,771	0.8	0.1	$21,106	NM
Total	$24,877	$3,771	0.6	0.1	$21,106	NM
Depreciation and amortization						
DSD Segment (1)	$120,009	$115,801	3.7	3.6	$4,208	3.6
Warehouse Segment (1)	20,138	16,734	3.1	2.8	3,404	20.3
Corporate (2)	722	(360)	—	—	1,082	NM
Total	$140,869	$132,175	3.6	3.5	$8,694	6.6
Income from operations						
DSD Segment (1)	$260,495	$302,361	7.9	9.5	$(41,866)	(13.8)
Warehouse Segment (1)	58,465	55,266	9.1	9.2	3,199	5.8

Corporate (2)	(55,070)	(59,748)	—	—	4,678	7.8
Total	$263,890	$297,879	6.7	7.9	$(33,989)	(11.4)
Interest expense, net	$14,353	$4,848	0.4	0.1	$9,505	196.1
Income tax expense	$85,761	$103,840	2.2	2.7	$(18,079)	(17.4)
Net income	$163,776	$189,191	4.2	5.0	$(25,415)	(13.4)
Comprehensive income	$177,293	$190,411	4.5	5.0	$(13,118)	(6.9)

1. As a percentage of revenue within the reporting segment.
2. The corporate segment has no revenues.
NM – the computation is not meaningful

Percentages may not add due to rounding.

Consolidated and Segment Results - Fiscal 2017 compared to Fiscal 2016

Sales

Consolidated

	Fiscal 2017 52 weeks		Fiscal 2016 52 weeks		
	$ (Amounts in thousands)	%	$ (Amounts in thousands)	%	% Change
Branded retail	$2,299,931	58.7	$2,283,526	58.2	0.7
Store branded retail	582,454	14.9	582,280	14.8	—
Non-retail and other	1,038,348	26.4	1,061,079	27.0	(2.1)
Total	$3,920,733	100.0	$3,926,885	100.0	(0.2)

The change in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	0.6
Volume	(0.2)
Divestiture	(0.6)
Total percentage change in sales	(0.2)

The divestiture of the mix manufacturing business combined with softness in the fresh bakery category and a competitive marketplace resulted in the overall sales decline, mostly offset by significant sales growth for our DKB branded organic products. Sales of DKB branded products grew due to volume and price increases as well as the introduction of DKB branded breakfast items in the second quarter of fiscal 2017. Branded retail sales increased mainly due to significant growth in branded organic products, partially offset by volume declines in other branded retail products, most significantly branded cake, branded buns and rolls, and branded soft variety bread. Non-retail and other sales, which include contract manufacturing, vending and foodservice, decreased largely due to the impact of the mix manufacturing business divestiture as well as decreased sales for contract manufacturing and bakery outlet stores, partially offset by increases in vending sales.

DSD Segment

	Fiscal 2017 52 weeks		Fiscal 2016 52 weeks		
	$ (Amounts in thousands)	%	$ (Amounts in thousands)	%	% Change
Branded retail	$2,149,966	64.8	$2,114,142	64.4	1.7
Store branded retail	470,941	14.2	464,456	14.1	1.4
Non-retail and other	697,656	21.0	705,579	21.5	(1.1)
Total	$3,318,563	100.0	$3,284,177	100.0	1.0

The change in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	1.3
Volume	(0.3)
Total percentage change in sales	1.0

Branded retail sales increased due to significant sales growth of the DKB brand since its national rollout in our DSD markets at the beginning of the second quarter of fiscal 2016 and, to a lesser extent, the introduction of DKB branded breakfast items in the second half of fiscal 2017. Declines in other branded items, most notably buns and rolls, soft variety bread and cake, partially offset the increase in branded retail sales. Increased sales of store branded buns and rolls mostly resulted in the increase in store branded retail sales. Lower foodservice and bakery outlet store sales primarily resulted in the decrease in non-retail and other sales.

Warehouse Segment

	Fiscal 2017 52 weeks		Fiscal 2016 52 weeks		
	$ (Amounts in thousands)	%	$ (Amounts in thousands)	%	% Change
Branded retail	$149,965	24.9	$169,384	26.4	(11.5)
Store branded retail	111,513	18.5	117,824	18.3	(5.4)
Non-retail and other	340,692	56.6	355,500	55.3	(4.2)
Total	$602,170	100.0	$642,708	100.0	(6.3)

The change in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	(3.3)
Volume	—
Divestiture	(3.0)
Total percentage change in sales	(6.3)

The impact of our mix manufacturing business divestiture, sales declines for warehouse-delivered branded organic breads, and lower snack cake sales resulted in the sales decrease. The sales related to the mix manufacturing business were included in the non-retail and other category. The significant decline in branded retail sales was mostly due to volume declines for warehouse-delivered branded organic bread and, to a lesser extent, branded cake. The Warehouse Segment's Mesa, Arizona plant significantly increased production of DKB organic breads for the DSD Segment during the second quarter of fiscal 2016 and this trend has continued. These intercompany sales are not included in the Warehouse Segment's sales above. Volume declines mostly resulted in the decrease in branded retail cake. Store branded retail sales decreased mainly due to volume decreases in store branded cake. The decrease in non-retail and other sales was largely due to the mix manufacturing business divestiture and to a much lesser extent lost contract manufacturing business, partially offset by volume gains in foodservice and vending sales.

Materials, Supplies, Labor, and Other Production Costs (exclusive of depreciation and amortization shown separately; as a percent of sales)

Consolidated

Line item component	Fiscal 2017 % of sales	Fiscal 2016 % of sales	Change as a % of sales
Ingredients	24.4	24.5	(0.1)
Workforce-related costs	14.6	14.5	0.1
Packaging	4.3	4.4	(0.1)
Utilities	1.4	1.5	(0.1)
Other	6.5	6.7	(0.2)
Total	51.2	51.6	(0.4)

Overall, costs were lower as percent of sales mainly due to a reduction in outside purchases of products and improvements in manufacturing efficiency. As of the beginning of fiscal 2017, we had completed the transition from purchasing certain DKB bread products from co-manufacturers to producing these items ourselves due to the added production capacity provided by our Tuscaloosa, Alabama and Mesa, Arizona plants. Also, in the prior year, we incurred $2.2 million of start-up costs related to converting the Tuscaloosa plant to an all-organic plant. This decrease in outside product purchases is reflected in the other line item in the table above.

Commodities, such as our baking ingredients, periodically experience price fluctuations. 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 other derivative financial instruments in an effort to manage the impact of such volatility in raw material prices. Any decrease in the availability of these agreements could increase the effective price of these raw materials to us and significantly affect our earnings. We currently anticipate a significant increase in ingredient costs in fiscal 2018 relative to fiscal 2017 primarily resulting from a rise in flour prices.

DSD Segment

Line item component	Fiscal 2017 % of sales	Fiscal 2016 % of sales	Change as a % of sales
Ingredients	21.7	21.7	—
Workforce-related costs	12.7	12.6	0.1
Packaging	3.0	3.1	(0.1)
Utilities	1.3	1.4	(0.1)
Other	8.8	9.0	(0.2)
Total	47.5	47.8	(0.3)

During the prior fiscal year, a portion of the DKB products were produced by co-manufacturers due to capacity constraints, but in the current fiscal year, most of these products were produced in two plants in the DSD Segment and the Mesa, Arizona plant in the Warehouse Segment. The other line item reflects this decrease in outside purchases of product, somewhat offset by increased intercompany purchases of product from the Warehouse Segment. Additionally, in the prior year, we incurred $2.2 million of start-up costs related to converting the Tuscaloosa, Alabama plant to an all-organic plant.

Warehouse Segment

Line item component	Fiscal 2017 % of sales	Fiscal 2016 % of sales	Change as a % of sales
Ingredients	39.7	39.0	0.7
Workforce-related costs	25.2	23.9	1.3
Packaging	11.7	11.0	0.7
Utilities	1.7	1.7	—
Other	(6.7)	(4.6)	(2.1)
Total	71.6	71.0	0.6

Ingredient costs were higher as a percent of sales due to increased intercompany sales of organic products to the DSD Segment (ingredient costs with no associated sales) combined with decreased outside purchases of product (sales with no associated ingredient costs), partially offset by the impact of the mix manufacturing business divestiture. Workforce-related and packaging costs were also higher as a percent of sales due to increased intercompany sales of product to the DSD Segment (costs with no associated sales) and significant sales declines. The other line item in the table above mostly reflects the increase in intercompany sales of product to the DSD Segment, largely the DKB organic products, and the decrease in outside purchases of product.

Selling, Distribution and Administrative Expenses (as a percent of sales)

Consolidated

Line item component	Fiscal 2017 % of sales	Fiscal 2016 % of sales	Change as a % of sales
Workforce-related costs	17.4	17.7	(0.3)
Distributor distribution fees	13.5	12.7	0.8
Other	7.5	6.9	0.6
Total	38.4	37.3	1.1

The increase in distributor distribution fees as a percent of sales mostly resulted from converting territories from company-operated to independent distributors, and the national rollout of the DKB brand in our DSD markets at the beginning of the second quarter of fiscal 2016. The DKB products were sold primarily by warehouse delivery prior to the national rollout. Workforce-related costs were lower due to transitioning to independent distributors, somewhat offset by higher employee incentive costs. As discussed in the "Matters Affecting Comparability" section above, consulting costs associated with Project Centennial were $31.0 million higher in the current year as compared to the prior year and are reflected in the other line item in the table above. Cost savings programs that we have implemented and the benefit recognized related to the early lease terminations, as discussed in the DSD Segment below, partially offset the overall increase in selling, distribution and administrative expenses.

DSD Segment

Line item component	Fiscal 2017 % of sales	Fiscal 2016 % of sales	Change as a % of sales
Workforce-related costs	17.3	17.8	(0.5)
Distributor distribution fees	15.9	15.1	0.8
Other	6.4	7.0	(0.6)
Total	39.6	39.9	(0.3)

In the current year, distributor distribution fees were higher as a percentage of sales due to a larger portion of our sales being sold through independent distributors as we converted territories from company-owned to independent distributors. Additionally, the national rollout of the DKB brand in our DSD markets at the beginning of the second quarter of fiscal 2016 contributed to the increase year over year. The DKB products were sold mostly by warehouse delivery prior to the national rollout. The transition to independent distributors resulted in decreased workforce-related costs, somewhat offset by higher employee incentive costs. The decrease in the other line item as a percentage of sales in the table above resulted from the implementation of cost savings programs and the immediate recognition of deferred credits, net of lease termination costs, associated with the early termination of certain leases. Additionally, legal costs and related settlements were lower in the current year as compared to the prior year; see Note 23, Commitments and Contingencies, of Notes to Consolidated Financial Statements of this Form 10-K for additional information.

Warehouse Segment

Line item component	Fiscal 2017 % of sales	Fiscal 2016 % of sales	Change as a % of sales
Workforce-related costs	8.0	7.9	0.1
Freezer storage/rent	2.2	2.0	0.2
Distribution costs (includes freight and shipping and hauling)	1.9	2.1	(0.2)
Other	5.2	4.7	0.5
Total	17.3	16.7	0.6

Selling, distribution and administrative expenses increased as a percent of sales primarily from significantly lower sales which spread the costs over a smaller sales base and higher bad debt expense in the current year. Lower distribution costs due to the divestiture of the mix manufacturing business, and decreased marketing costs partially offset the overall increase.

Gain on Divestiture, MEPP Costs, Pension Plan Settlement Loss, Restructuring and Related Impairment Charges and Impairment of Assets

Refer to the discussion in the “Matters Affecting Comparability” section above regarding these items.

Depreciation and Amortization Expense

Depreciation expense increased primarily due to the accelerated depreciation of certain leasehold improvements in conjunction with the early lease terminations as well as the retirement of certain right to use assets, all in the DSD Segment. Amortization expense was higher due to commencing amortization of certain trademarks of the DSD Segment in the current fiscal year which had previously been deemed indefinite-lived intangible assets.

The Warehouse Segment’s depreciation and amortization expense increase in dollars and as a percent of sales was mostly due to higher depreciation expenses on lower sales.

Income from Operations

Operating income (loss)	Favorable (Unfavorable) Percentage	Change as a % of Sales
DSD Segment	(22.2)	(1.8)
Warehouse Segment	(6.4)	—
Unallocated corporate	(71.6)	NA
Consolidated	(38.3)	(2.5)

NA Not applicable as the corporate segment has no revenues.

The significant decrease in the DSD Segment's operating income as a percent of sales was primarily driven by $80.0 million of restructuring and related impairment charges and $18.3 million of MEPP costs, partially offset by sales growth from positive pricing/mix, a reduction in outside purchases of product and legal costs and settlements, and the prior year asset impairment charge of $24.9 million. The Warehouse Segment's operating income as a percent of sales was relatively unchanged year over year; the gain on divestiture of the mix manufacturing business of $28.9 million in the current fiscal year was offset by $20.1 million of restructuring and related impairment charges and sales declines in the current year. The unfavorable change in unallocated corporate expenses was primarily due to consulting costs associated with Project Centennial increasing $31.0 million compared to the prior year, restructuring charges incurred in the current year of $4.0 million and higher employee incentive and legal costs in the current year, partially offset by a $2.0 million decrease in pension plan settlement losses in the current year.

Net Interest Expense

Net interest expense was relatively unchanged compared to the same period in the prior year. Higher average interest rates on debt outstanding due to converting certain variable rate debt to longer-term, fixed rate debt with the issuance of the 2026 notes in the third quarter of fiscal 2016 were mostly offset by lower average amounts outstanding under the company's debt arrangements in the current fiscal year compared to the prior year and the $1.9 million loss on early extinguishment recorded in the prior year.

Income Tax Expense (Benefit)

The effective tax rate for fiscal 2017 and fiscal 2016 was -0.6% and 34.4%, respectively. The effective tax rate for fiscal 2017 includes an estimated tax benefit of $48.2 million due to the Act, which was enacted on December 22, 2017. The revaluation of the company's net deferred tax liability from 35% to the newly enacted U.S. corporate income tax rate of 21% primarily resulted in the decrease in the effective rate. Other favorable discrete items, including a net windfall on stock compensation of $1.0 million, also contributed to the lower rate. Other than tax reform, the most significant differences in the effective rate and the statutory rate were the benefit from Section 199 qualifying domestic production activities deduction and state income tax expense.

The company recognized a provisional reduction to current tax expense of approximately $8.3 million attributable to pension contributions and bonus depreciation on certain assets placed into service during 2017. A provisional income tax expense of $0.7 million for the corresponding impact on the 2017 domestic manufacturing deduction was also recognized. These provisional adjustments resulted in a decrease in income taxes payable of $7.6 million. The income tax effects for these positions require further analysis, and the ultimate impact may differ from these provisional amounts due to this analysis, changes to estimates, additional regulatory guidance that may be issued by federal or state jurisdictions, changes in interpretations and assumptions the company has made, and actions the company may take because of tax reform. This analysis is expected to be completed in the second half of 2018.

During the first quarter of fiscal 2018, we anticipate a tax shortfall ranging from $2.1 million to $2.3 million to be recognized in income tax expense in the Consolidated Financial Statements upon the vesting of our performance-based share-based payment awards.

Comprehensive Income

The decrease in comprehensive income year over year resulted primarily from the decline in net income and net changes in the fair value of derivatives of $14.6 million.

Consolidated and Segment Results - Fiscal 2016 compared to Fiscal 2015

Sales

Consolidated

	Fiscal 2016 52 weeks		Fiscal 2015 52 weeks		
	$ (Amounts in thousands)	%	$ (Amounts in thousands)	%	% Change
Branded retail	$2,283,526	58.2	$2,151,514	56.9	6.1
Store branded retail	582,280	14.8	571,827	15.1	1.8
Non-retail and other	1,061,079	27.0	1,055,164	28.0	0.6
Total	$3,926,885	100.0	$3,778,505	100.0	3.9

The change in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	(0.3)
Volume	0.2
Acquisitions (until cycled the acquisition date)	4.0
Total percentage change in sales	3.9

The overall sales increase resulted primarily from increased sales due to the DKB and Alpine acquisitions. Declines in pricing/mix were mostly in the non-retail and other category, partially offset by positive pricing/mix in the branded retail category. Branded retail sales increased due to the contribution from the DKB and Alpine acquisitions, the national rollout of the DKB brand, sales growth in our expansion markets (defined as new markets we entered into in the last five years) and positive pricing/mix. Partially offsetting the increase was softer sales for other branded retail products, most significantly branded soft variety bread, due to softness in the packaged bread category and reductions in the company's promotional activities in the first half of fiscal 2016. Increases in sales of store branded variety bread, cake and buns and rolls resulted in the increase in the store branded retail category. The modest increase in non-retail and other sales, which include contract manufacturing, vending and foodservice, was primarily due to volume increases in foodservice and vending, mostly offset by decreases in pricing/mix.

DSD Segment

	Fiscal 2016 52 weeks		Fiscal 2015 52 weeks		
	$ (Amounts in thousands)	%	$ (Amounts in thousands)	%	% Change
Branded retail	$2,114,142	64.4	$2,011,433	63.3	5.1
Store branded retail	464,456	14.1	457,467	14.4	1.5
Non-retail and other	705,579	21.5	710,448	22.3	(0.7)
Total	$3,284,177	100.0	$3,179,348	100.0	3.3

The change in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)

Pricing/mix	0.7
Volume	(1.0)
Acquisition (until cycled the acquisition date)	3.6
Total percentage change in sales	3.3

Sales from the DKB acquisition drove the overall sales increase in the DSD Segment, partially offset by softer volume for other products due to the company's reduced promotional activity in the first half of fiscal 2016 and overall softness in the packaged bread category. Branded retail sales increased due to the contribution from the DKB acquisition, the national rollout of the DKB brand, sales growth in our expansion markets and positive pricing/mix. Softer volume for other branded retail products, with the largest decline in branded soft variety bread, partially offset the increase. The increase in store branded retail sales was due primarily to volume increases in store branded variety bread and buns and rolls. The modest decrease in non-retail and other sales, which include contract manufacturing, vending and foodservice, was primarily due to volume declines.

Warehouse Segment

	Fiscal 2016 52 weeks		Fiscal 2015 52 weeks		
	$ (Amounts in thousands)	%	$ (Amounts in thousands)	%	% Change
Branded retail	$169,384	26.4	$140,081	23.4	20.9
Store branded retail	117,824	18.3	114,360	19.1	3.0
Non-retail and other	355,500	55.3	344,716	57.5	3.1
Total	$642,708	100.0	$599,157	100.0	7.3

The change in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	(2.5)
Volume	3.9
Acquisition (until cycled the acquisition date)	5.9
Total percentage change in sales	7.3

The Warehouse Segment's sales increased significantly due to sales from the Alpine acquisition and to a lesser extent, volume growth in the non-retail and other category, partially offset by negative pricing/mix. Pricing/mix declined largely due to lower foodservice pricing. Branded retail sales increased due to the Alpine acquisition and less significantly to growth in bakery deli sales, partially offset by declines in branded cake. Increases in sales of store branded cake drove the increase in the store branded retail category. The increase in non-retail and other sales, which include contract manufacturing, vending and foodservice, was mainly due to growth in foodservice sales, due to new foodservice products for certain of our customers, and in vending, partially offset by negative pricing/mix.

Materials, Supplies, Labor, and Other Production Costs (exclusive of depreciation and amortization shown separately; as a percent of sales)

Consolidated

Line item component	Fiscal 2016	Fiscal 2015	Change as a

	% of sales	% of sales	% of sales
Ingredients	24.5	25.3	(0.8)
Workforce-related costs	14.5	14.1	0.4
Packaging	4.4	4.7	(0.3)
Utilities	1.5	1.6	(0.1)
Other	6.7	6.3	0.4
Total	51.6	52.0	(0.4)

Ingredient costs were lower as a percent of sales mainly due to lower prices for non-organic flour, oils and eggs and increased outside purchases of product (sales with no associated ingredient costs), partially offset by increases in sweetener prices and increased purchases of higher priced organic ingredients due to the DKB and Alpine acquisitions. Outside purchases of products are included in the other line item above and the increase largely relates to purchases of certain DKB products from co-manufacturers due to capacity constraints and to a lesser extent outside purchases for other products. As of the end of fiscal 2016, outside purchases of product had decreased considerably because of the additional organic production capacity provided by the Alpine plant and the Tuscaloosa, Alabama plant, which began producing organic bread at the beginning of the second quarter of fiscal 2016. The increase in workforce-related costs as a percent of sales was mainly due to wage increases on softer non-acquisition related sales and costs associated with the organic plant conversion, partially offset by increases in outside purchases of product (sales with no associated workforce-related costs). Lower packaging costs as a percent of sales mainly resulted from lower resin and paperboard prices and a shift in mix from cake to bread items.

Commodities, such as our baking ingredients, periodically experience price fluctuations. 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 other derivative financial instruments in an effort to manage the impact of such volatility in raw material prices. Any decrease in the availability of these agreements and instruments could increase the effective price of these raw materials to us and significantly affect our earnings.

DSD Segment

Line item component	Fiscal 2016 % of sales	Fiscal 2015 % of sales	Change as a % of sales
Ingredients	21.7	22.7	(1.0)
Workforce-related costs	12.6	12.3	0.3
Packaging	3.1	3.3	(0.2)
Utilities	1.4	1.5	(0.1)
Other	9.0	8.4	0.6
Total	47.8	48.2	(0.4)

The decrease in ingredient costs as a percent of sales for the DSD Segment was attributable to lower pricing on non-organic flour, oils and eggs, and increases in purchases of product from the Warehouse Segment and from co-manufacturers due to capacity constraints (sales with no associated ingredient costs), partially offset by higher sweetener prices. The increase in the other line item reflects these product purchases, largely for certain DKB products. As discussed above, by the end of fiscal 2016, outside purchases for the DKB products had declined significantly due to the added production capacity provided by our Tuscaloosa, Alabama plant and the Alpine plant in the Warehouse Segment. Wage increases on lower non-acquisition related sales and costs related to converting the Tuscaloosa, Alabama plant to an organic facility, drove the increase in workforce-related costs as a percent of sales, partially offset by increased outside and intercompany purchases of product (sales with no associated workforce-related costs).

Warehouse Segment

Line item component	Fiscal 2016 % of sales	Fiscal 2015 % of sales	Change as a % of sales
Ingredients	39.0	38.8	0.2
Workforce-related costs	23.9	23.7	0.2
Packaging	11.0	11.6	(0.6)
Utilities	1.7	1.8	(0.1)
Other	(4.6)	(4.1)	(0.5)

Total	71.0	71.8	(0.8)

The Warehouse Segment's increase in ingredient costs as a percent of sales was mostly due to increased purchases of higher priced organic ingredients due to the DKB and Alpine acquisitions, price increases for sweeteners and increased sales of product to the DSD Segment (ingredient costs with no associated sales). Partially offsetting the increase was lower prices for non-organic flour, eggs and oil and increases in outside purchases of product (sales with no associated ingredient costs). Packaging costs decreased as a percent of sales primarily due to significantly lower packaging costs for Alpine products relative to the Warehouse Segment as a whole and lower paperboard prices. The other line item reflects the increased intercompany sales of product to the DSD Segment, largely the DKB products, somewhat offset by the increase in outside purchases of product.

Selling, Distribution and Administrative Expenses (as a percent of sales)

Consolidated

Line item component	Fiscal 2016 % of sales	Fiscal 2015 % of sales	Change as a % of sales
Workforce-related costs	17.7	17.1	0.6
Distributor distribution fees	12.7	13.4	(0.7)
Other	6.9	6.1	0.8
Total	37.3	36.6	0.7

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Workforce-related costs increased as a percent of sales primarily due to a smaller portion of sales being sold via independent distributors in fiscal 2016 as compared to fiscal 2015, partially offset by lower employee incentive costs. The distributor distribution fees decrease correlates to the increase in workforce-related costs. Significantly higher legal and consulting costs as well as increased marketing for the DKB and Alpine brands caused the increase in the other line item component, partially offset by acquisition-related costs of $6.2 million incurred in fiscal 2015. Legal costs increased primarily due to the ongoing and additional distributor lawsuits, and two legal settlements totaling $10.25 million recorded in the fiscal 2016. See Note 23, Commitments and Contingencies, of Notes to Consolidated Financial Statements of this Form 10-K for additional information. As discussed in the "Matters Affecting Comparability" section above, consulting costs associated with Project Centennial were $6.3 million in fiscal 2016.

DSD Segment

Line item component	Fiscal 2016 % of sales	Fiscal 2015 % of sales	Change as a % of sales
Workforce-related costs	17.8	17.1	0.7
Distributor distribution fees	15.1	15.9	(0.8)
Other	7.0	5.5	1.5
Total	39.9	38.5	1.4

The increase in workforce-related costs as a percentage of sales was due to a smaller portion of sales being sold via independent distributors in fiscal 2016 as compared to fiscal 2015 resulting in the decrease in distributor distribution fees as a percent of sales. The increase in workforce-related costs was somewhat offset by lower employee incentive costs. The increase in the other line item as a percentage of sales was primarily a result of significantly higher legal costs related to the distributor lawsuits and $10.25 million of legal settlements discussed above, and increased corporate overhead charges to the DSD Segment.

Warehouse Segment

Line item component	Fiscal 2016 % of sales	Fiscal 2015 % of sales	Change as a % of sales
Workforce-related costs	7.9	7.9	—
Freezer storage/rent	2.0	2.1	(0.1)
Distribution costs (includes freight and shipping and hauling)	2.1	2.1	—
Other	4.7	4.0	0.7
Total	16.7	16.1	0.6

Higher marketing costs as a percent of sales drove the increase in the other line item, mainly attributable to promotional spending for the Alpine brand, as well as increased corporate overhead charges to the Warehouse Segment.

Pension Plan Settlement Loss

We recorded settlement charges of $6.6 million during fiscal 2016 related to our pension risk mitigation plan. Refer to the Pension plan settlement losses discussion in the “Matters Affecting Comparability” section above for additional details.

Impairment of Assets

We recorded impairment of assets of $24.9 million and $3.8 million during fiscal years 2016 and 2015, respectively, related to assets in the DSD Segment. Refer to the Impairment of assets discussion in the “Matters Affecting Comparability” section above for additional details.

Depreciation and Amortization Expense

On a consolidated basis, depreciation and amortization expense increased in dollars and as a percent of sales due primarily to amortizing the DKB (included in the DSD Segment) and Alpine (included in the Warehouse Segment) intangible assets which were acquired in the third and fourth quarter of fiscal 2015, respectively.

The DSD Segment’s depreciation and amortization expense increased in dollars primarily due to the amortization of the acquired DKB intangible assets, partially offset by lower depreciation expense.

The Warehouse Segment's depreciation and amortization expense increase in dollars and as a percent of sales was mostly due to amortization of the acquired Alpine intangible assets.

Income from Operations

Operating income (loss)	Favorable (Unfavorable) Percentage	Change as a % of Sales
DSD Segment	(13.8)	(1.6)
Warehouse Segment	5.8	(0.1)
Unallocated corporate	7.8	NA
Consolidated	(11.4)	(1.2)

NA Not applicable as the corporate segment has no revenues.

The unfavorable decrease in the DSD Segment's income from operations was largely attributable to the higher asset impairment charges, increased legal costs and related settlements, and higher corporate overhead charges in fiscal 2016 as compared to fiscal 2015. The Warehouse Segment's operating income was relatively consistent with the prior year as a percent of sales. The favorable change in unallocated corporate expenses was mostly due to increased overhead charges to the segments in fiscal 2016 and $6.2 million of acquisition-related costs incurred in fiscal 2015, partially offset by pension plan settlement losses of $6.6 million and Project Centennial consulting costs both incurred in fiscal 2016. In fiscal 2015, unanticipated legal costs were not allocated to the segments, but instead were absorbed at the corporate level.

Net Interest Expense

The increase in net interest expense resulted from higher average amounts outstanding under the company's debt arrangements during the current fiscal year and to a lesser extent decreased interest income in fiscal 2016 due to lower average distributor notes receivable outstanding during the current fiscal year. Additionally, we expensed $1.9 million of debt issuance costs associated with our existing term loans that were paid off prior to maturity with the proceeds from the issuance of the 2026 notes.

Income Taxes

The effective tax rate for fiscal 2016 and fiscal 2015 was 34.4% and 35.4%, respectively. The decrease in the rate was primarily related to an increase in the Section 199 qualifying production activities benefit. The most significant differences in the effective rate and the statutory rate were additions for state income taxes and the benefit for Section 199 qualifying production activities deduction.

Comprehensive Income

The decrease in comprehensive income resulted from a decrease in net income year over year, partially offset by changes in the fair value of derivative instruments.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

Strategy

We believe our ability to consistently generate cash flows from operating activities to meet our liquidity needs is one of our key financial strengths and we do not anticipate significant risks to these cash flows in the foreseeable future. Additionally, we strive to maintain a conservative financial position aiming to achieve this through prudent debt reduction and share repurchase programs. We believe having a conservative financial position allows us flexibility to make investments and acquisitions and is a strategic competitive advantage. Currently, our liquidity needs arise primarily from working capital requirements, capital expenditures, pension contributions and obligated debt repayments. We believe we currently have access to available funds and financing sources to meet our short and long-term capital requirements. The company's strategy for use of its excess cash flows includes:

- implementing our strategies under Project Centennial;
- paying dividends to our shareholders;
- maintaining a conservative financial position;
- making strategic acquisitions;

- repurchasing shares of our common stock; and
- making discretionary contributions to our qualified pension plans.

The company leases certain property and equipment under various operating and capital lease arrangements. Most of the operating leases provide the company with the option, after the initial lease term, either to purchase the property at the then fair value or renew the lease at the then fair value. The capital leases provide the company with the option to purchase the property at a fixed price at the end of the lease term. The company believes the use of leases as a financing alternative places the company in a more favorable position to fulfill its long-term strategy for the use of its cash flow. See Note 14, Debt, Lease and Other Commitments, of Notes to Consolidated Financial Statements of this Form 10-K for detailed financial information regarding the company's lease arrangements.

Key items impacting our liquidity, capital resources and financial position in fiscal 2017 and 2016:

Fiscal 2017:

- We generated $297.4 million of net cash from operating activities.
- Divested the non-core mix manufacturing business and received proceeds of $41.2 million.
- We incurred Project Centennial implementation costs, including restructuring cash charges of $34.5 million and non-restructuring consulting costs of $37.3 million.
- We reduced our total debt outstanding $124.0 million.
- We invested in our plants through capital expenditures of $75.2 million (DSD Segment of $64.3 million and Warehouse Segment of $6.9 million).
- We paid dividends to our shareholders of $141.0 million.
- We continued our pension de-risking strategy by offering pension plan participants who have not yet started receiving their payments, the option to receive their benefits as a single lump sum payment.

Fiscal 2016:

- We generated $356.6 million of net cash from operating activities.
- We issued $400.0 million of the 2026 notes that mature on October 1, 2026.
- We repaid the 2016 and 2013 term loans prior to maturity with proceeds from the 2026 notes.
- We reduced our total debt outstanding $55.6 million.
- We repurchased 6.9 million shares of our common stock for $126.3 million (including shares repurchased under the ASR).
- We invested in our plants through capital expenditures of $101.7 million (DSD Segment of $61.7 million and Warehouse Segment of $16.8 million).
- We paid dividends to our shareholders of $131.1 million.
- We continued our pension de-risking strategy by offering pension plan participants who have not yet started receiving their payments, the option to receive their benefits as a single lump sum payment.

Liquidity Discussion

Flowers Foods' cash and cash equivalents were $5.1 million at December 30, 2017, $6.4 million at December 31, 2016 and $14.4 million at January 2, 2016. The cash and cash equivalents were derived from the activities presented in the table below (amounts in thousands):

Cash flow component	Fiscal 2017	Fiscal 2016	Fiscal 2015
Cash flows provided by operating activities	$297,389	$356,562	$335,674
Cash disbursed for investing activities	(35,395)	(76,714)	(469,815)
Cash provided by (disbursed for) financing activities	(263,275)	(287,816)	140,996
Total change in cash	$(1,281)	$(7,968)	$6,855

Cash Flows Provided by Operating Activities. Net cash provided by operating activities included the following items for non-cash adjustments to net income (amounts in thousands):

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Depreciation and amortization	$146,719	$140,869	$132,175
Gain on divestiture	(28,875)	—	—
Restructuring and related impairment charges	69,601	—	—
Stock-based compensation	16,093	18,761	15,692
Impairment of assets	—	24,877	3,771
Deferred income taxes	(61,306)	(14,457)	18,293
Pension and postretirement plans (benefit) expense (including settlement losses)	(897)	2,238	(5,878)
Other non-cash	1,776	9,890	17,431
Net non-cash adjustment to net income	$143,111	$182,178	$181,484

- The changes in depreciation and amortization were primarily due to accelerated depreciation of certain leasehold improvements and right to use assets, and amortization of certain trademarks that had previously been indefinite-lived intangible assets.
- Refer to the Restructuring and related impairment charges associated with Project Centennial and the Impairment of assets discussions in the "Matters Affecting Comparability" section above regarding these items.
- For fiscal 2017, deferred income taxes changed due to revaluing the net deferred tax liability due to tax reform and changes in temporary differences year over year. For fiscal 2016 and fiscal 2015, the changes resulted from changes in temporary differences year over year.
- Changes in pension and postretirement plan (benefit) expense were primarily due to settlement losses of $4.6 million and $6.6 million in fiscal 2017 and 2016, respectively. There were no settlement losses recorded in fiscal 2015.
- Other non-cash items include non-cash interest expense for the amortization of debt discounts and deferred financing costs and gains or losses on the sale of assets.

Net cash for working capital requirements and pension contributions included the following items (amounts in thousands):

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Changes in accounts receivable, net	$(11,762)	$(7,888)	$(16,873)
Changes in inventories, net	(7,801)	(1,526)	(9,717)
Changes in hedging activities, net	(15,727)	13,592	(12,818)
Changes in other assets	(12,557)	(3,441)	(4,660)
Changes in accounts payable	10,840	(519)	14,563
Changes in other accrued liabilities	42,770	11,390	4,504
Qualified pension plan contributions	(1,605)	(1,000)	(10,000)
Net changes in working capital and pension contributions	$4,158	$10,608	$(35,001)

- Hedging activities change from market movements that affect the fair value and required collateral of positions and the timing and recognition of deferred gains or losses. These changes will occur as part of our hedging program. The change in other assets for fiscal 2017 was primarily due to changes in income tax receivables.
- During fiscal 2017, we made a voluntary contribution to our defined benefit pension plans of $1.6 million and in January of fiscal 2018 we made a $10.0 million contribution to these plans. We also expect to pay $0.3 million in nonqualified pension benefits from corporate assets in the remainder of fiscal 2018. The company believes its cash flow and balance sheet will allow it to fund future pension needs without adversely affecting the business strategy of the company.
- Changes in employee compensation accruals (including restructuring-related employee termination benefits), accrued MEPP costs, and legal accruals resulted in the change in other accrued liabilities. In fiscal 2017, we paid $9.0 million of restructuring-related cash charges and in fiscal 2018, $25.5 million of restructuring-related cash charges has been or will be paid. Additionally, we anticipate making payments of approximately $29.4 million, including our share of employment taxes, in performance-based cash awards under our bonus plan in the first quarter of fiscal 2018. During fiscal 2017 and 2016, the company paid $17.3 million and $25.6 million, respectively, including our share of employment taxes, in performance-based cash awards under the company's bonus plan. An additional $0.4 million was paid during fiscal 2017 and 2016, respectively, for our share of employment taxes on the vesting of the performance-contingent restricted stock awards in each respective year.

Cash Flows Disbursed for Investing Activities. The table below presents net cash disbursed for investing activities for fiscal 2017, 2016 and 2015 (amounts in thousands):

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Purchase of property, plant, and equipment	$(75,232)	$(101,727)	$(90,773)
Repurchase of independent distributor territories	(6,460)	(8,871)	(14,338)
Principal payments from notes receivable	24,875	22,272	23,023
Cash issued for notes receivable	(25,566)	(8,577)	(7,962)
Acquisition of businesses, net of cash acquired	—	—	(390,221)
Proceeds from divestiture	41,230	—	—
Proceeds from sale of property, plant and equipment	3,935	17,667	14,324
Acquisition of intangible assets	—	—	(5,000)
Other	1,823	2,522	1,132
Net cash disbursed for investing activities	$(35,395)	$(76,714)	$(469,815)

- Capital expenditures by segment were as follows:

Segment	Fiscal 2017	Fiscal 2016	Fiscal 2015
DSD Segment	$64,317	$61,669	$72,148
Warehouse Segment	$6,933	$16,792	$9,596

The company currently estimates capital expenditures of approximately $95.0 million to $105.0 million on a consolidated basis during fiscal 2018.

- We received proceeds, net of a working capital adjustment, of $41.2 million from the divestiture of our Cedar Rapids, Iowa mix manufacturing business in the first quarter of fiscal 2017.
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Cash payments for the DKB acquisition of $282.1 million in the third quarter of fiscal 2015 and for the Alpine acquisition of $109.3 million in the fourth quarter of fiscal 2015 were funded from cash on hand and drawdowns from our existing credit facilities. Additionally, we acquired the Roman Meal trademark for $5.0 million in the first quarter of fiscal 2015.

- Proceeds from the sale of property, plant and equipment in fiscal 2016 and 2015 were primarily related to the sale of certain idle plants, depots and equipment acquired in the Acquired Hostess Bread Assets acquisition as well as other closed plants.

Cash Flows Provided by (Disbursed for) Financing Activities. The table below presents net cash provided by (disbursed for) financing activities for fiscal 2017, 2016 and 2015 (amounts in thousands):

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Dividends paid, including dividends on share-based payment awards	$(140,982)	$(131,073)	$(120,442)
Exercise of stock options	19,313	27,631	19,617
Payments for financing fees	(729)	(4,380)	(646)
Stock repurchases, including accelerated stock repurchases	(2,671)	(126,300)	(6,858)
Change in bank overdrafts	(14,206)	1,914	2,325
Net debt and capital lease obligation changes	(124,000)	(55,608)	247,000
Net cash provided by (disbursed for) financing activities	$(263,275)	$(287,816)	$140,996

- Our dividend payout rate increased 7.2% from fiscal 2016 to fiscal 2017 and 10.1% from fiscal 2015 to fiscal 2016. While there are no requirements to increase the dividend payout we have shown a recent historical trend to do so. Should this continue in the future we will have additional cash needs to meet these expected dividend payouts.
- As of December 30, 2017, there were nonqualified stock option grants of 0.1 million shares that were exercisable. These have a remaining contractual life of approximately 0.11 years and a weighted average exercise price of $10.87 per share. At this time, it is expected that these shares will be exercised before the contractual term expires and such exercises may provide an increase to the cash provided by financing activities.
- Stock repurchase decisions are made based on our stock price, our belief of relative value, and our cash projections at any given time. In fiscal 2016, we repurchased 6.9 million shares of our common stock, of which 6.5 million were repurchased under the ASR program. See Note 17, Stockholders' Equity, of Notes to Consolidated Financial Statements of this Form 10-K for additional information.
- Net debt obligations increased in fiscal 2015 primarily due to funding the DKB and Alpine acquisitions, net of repayments we made during the year.

Capital Structure

Long-term debt and capital lease obligations were as follows at December 30, 2017 and December 31, 2016. For a detailed description of our debt and capital lease obligations and information regarding our credit ratings, distributor arrangements, deferred compensation, and guarantees and indemnification obligations, see Note 14, Debt, Lease and Other Commitments, of Notes to Consolidated Financial Statements of this Form 10-K:

	Interest Rate at December 30, 2017	Final Maturity	Balance at December 30, 2017	December 31, 2016	Fixed or Variable Rate
			(Amounts in thousands)		
2026 senior notes	3.50%	2026	$394,978	$394,406	Fixed Rate
2022 senior notes	4.38%	2022	397,941	397,458	Fixed Rate
Unsecured credit facility	4.60%	2022	—	24,000	Variable Rate

Accounts receivable securitization	2.41%	2019	—	95,000	Variable Rate
Capital lease obligations	3.50%	2025	27,150	30,427	
Other notes payable	2.10%	2020	12,167	16,866	
			832,236	958,157	
Current maturities of long-term debt and capital lease obligations			12,095	11,490	
Long-term debt and capital lease obligations			$820,141	$946,667	

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The facility and credit facility are generally used for short term liquidity needs. The company has historically entered into amendments and extensions approximately one year prior to the maturity of the facility and the credit facility. The following table details the amounts available under the facility and credit facility and the highest and lowest balances outstanding under these arrangements during fiscal 2017:

Facility	Amount Available for Withdrawal at December 30, 2017	Highest Balance in Fiscal 2017	Lowest Balance in Fiscal 2017
	(Amounts in thousands)		
Facility	$179,300	$95,000	$ —
Credit facility (1)	491,302	$47,500	$ —
	$670,602		

(1) Amount excludes a provision in the agreement which allows the company to request an additional $200.0 million in additional revolving commitments.

Amounts outstanding under the credit facility can vary daily. Changes in the gross borrowings and repayments can be caused by cash flow activity from operations, capital expenditures, acquisitions, dividends, share repurchases, and tax payments, as well as derivative transactions which are part of the company's overall risk management strategy as discussed in Note 11, Derivative Financial Instruments, of Notes to Consolidated Financial Statements of this Form 10-K. During fiscal 2017, the company borrowed $447.9 million in revolving borrowings under the credit facility and repaid $471.9 million in revolving borrowings. The amount available under the credit facility is reduced by $8.7 million for letters of credit.

The facility and the credit facility are variable rate debt. In periods of rising interest rates, the cost of using the facility and the credit facility will become more expensive and increase our interest expense. Therefore, borrowings under these facilities provide us the greatest direct exposure to rising rates. In addition, if interest rates do increase it will make the cost of funds more expensive.

Restrictive financial covenants for our borrowings include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. Our debt may also contain certain customary representations and warranties, affirmative and negative covenants, and events of default. 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 debt agreements and can meet its presently foreseeable financial requirements. As of December 30, 2017 and December 31, 2016, the company was in compliance with all restrictive covenants under our debt agreements.

Special Purpose Entities. At December 30, 2017 and December 31, 2016, the company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes.

Aggregate Maturities of Debt.

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

Aggregate maturities of debt outstanding, including capital leases, as of December 30, 2017, are as follows (excluding unamortized debt discount and issuance costs) (amounts in thousands):

2018	$12,095
2019	10,623
2020	5,344
2021	3,598
2022	402,101
2023 and thereafter	405,889
Total	$839,650

Contractual Obligations and Commitments. The following table summarizes the company's contractual obligations and commitments at December 30, 2017 and the effect such obligations are expected to have on its liquidity and cash flow in the indicated future periods:

	Payments Due by Fiscal Year (Amounts in thousands)				
	Total	2018	2019-2020	2021-2022	2023 and Beyond
Contractual Obligations:					
Long-term debt	$812,500	$5,000	$7,500	$400,000	$400,000
Interest payments(1)	197,750	31,500	63,000	54,250	49,000
Capital leases	27,150	7,095	8,466	5,700	5,889
Interest on capital leases	2,115	612	802	476	225
Non-cancelable operating lease obligations(2)	491,128	61,630	107,636	81,101	240,761
Pension and postretirement contributions and payments(3)	16,991	10,680	1,443	1,391	3,477
Deferred compensation plan obligations(4)	15,732	1,238	1,052	532	12,910
Purchase obligations(5)	364,612	364,612	—	—	—
Total contractual cash obligations	$1,927,978	$482,367	$189,899	$543,450	$712,262

	Amounts Expiring by Fiscal Year (Amounts in thousands)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Commitments:					
Standby letters of credit(6)	$16,707	$16,707	$—	$—	$—
Truck lease guarantees	6,562	90	3,732	2,357	383
Total commitments	$23,269	$16,797	$3,732	$2,357	$383

(1) There were no amounts outstanding under our credit facility at December 30, 2017, however, if there had been amounts outstanding, they would not be included since payments into and out of the credit facility change daily. The facility interest rate is based on the actual rate at December 30, 2017. Interest on the senior notes and other notes payable is based on the stated rate and excludes the amortization of debt discount and debt issuance costs.

(2) Does not include lease payments expected to be incurred in fiscal 2018 related to distributor vehicles and other short-term operating leases. These are not recorded on the Consolidated Balance Sheet but will be recorded as lease payments obligations are incurred in the Consolidated Statements of Income.

(3) Includes the expected benefit payments for postretirement plans from fiscal 2018 through fiscal 2027. These future postretirement plan payments are not recorded on the Consolidated Balance Sheet but will be recorded as these payments are incurred in the Consolidated Statements of Income. The company contributed $10.0 million to our

qualified pension plans in January of fiscal 2018.

(4) These are unsecured general obligations to pay the deferred compensation of, and our contributions to, participants in the executive deferred compensation plan. This liability is recorded on the Consolidated Balance Sheet as either a current or long-term liability.

(5) Represents the company's various ingredient and packaging purchasing commitments. This item is not recorded on the Consolidated Balance Sheet.

(6) These letters of credit are for the benefit of certain insurance companies related to workers' compensation liabilities recorded by the company as of December 30, 2017 and certain lessors and energy vendors. Such amounts are not recorded on the Consolidated Balance Sheet, but $8.7 million of this total reduces the availability of funds under the credit facility.

Because we are uncertain as to if or when settlements may occur, these tables do not reflect the company's net liability of $1.0 million related to uncertain tax positions as of December 30, 2017. Details regarding this liability are presented in Note 22, Income Taxes, of Notes to Consolidated Financial Statements of this Form 10-K.

In the event the company ceases to utilize the independent distribution form of doing business or exits a geographic market, the company is contractually required to purchase the distribution rights from the independent distributor. These potential commitments are excluded from the table above because they cannot be known at this time.

Total stockholders' equity was as follows at December 30, 2017 and December 31, 2016:

	Balance at December 30, 2017	December 31, 2016
	(Amounts in thousands)	
Total stockholders' equity	$1,250,677	$1,210,080

Stock Repurchase Plan. The Board has approved a plan that currently authorizes share repurchases of up to 74.6 million shares of the company's common stock. At the close of the company's fourth quarter on December 30, 2017, 6.6 million shares remained under the existing authorization. Under the plan, the company may repurchase its common stock in open market or privately negotiated transactions or under an accelerated repurchase program 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 fiscal 2017, 0.1 million shares, at a cost of $2.7 million, of the company's common stock were repurchased under the plan and during fiscal 2016, 6.9 million shares at a cost of $126.3 million were repurchased under the plan, including 6.5 million of share repurchases under an ASR agreement with Deutsche Bank AG. From the inception of the plan through December 30, 2017, 67.9 million shares, at a cost of $633.1 million, have been repurchased. There were no repurchases of the company's common stock during the fourth quarter of fiscal 2017.

New Accounting Pronouncements Not Yet Adopted

See Note 3, Recent Accounting Pronouncements, of Notes to Consolidated Financial Statements of this Form 10-K regarding this information.

Item 7A. 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 forwards, futures, swaps, 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, interest rates and commodity prices could increase significantly, adversely affecting our interest costs and the margins from the sale of our products.

Commodity Price Risk

The company enters into commodity forward, futures, option, and swap contracts 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 December 30, 2017, the company's hedge portfolio contained commodity derivatives with a fair value of $(10.6) million. Of this fair value, $(10.6) million is based on quoted market prices. Approximately $(10.0) million relates to instruments that will be utilized in fiscal 2018. The remaining $(0.6) million will be primarily utilized in fiscal 2019.

A sensitivity analysis has been prepared to quantify the company's potential exposure to commodity price risk with respect to its derivative portfolio. Based on the company's derivative portfolio as of December 30, 2017, a hypothetical ten percent change in commodity prices would increase or decrease the fair value of the derivative portfolio by $14.1 million. The analysis disregards changes in the exposures inherent in the underlying hedged items; however, the company expects that any increase or decrease in the fair value of the portfolio would be substantially offset by increases or decreases in raw material and packaging prices.

Item 8. Financial Statements and Supplementary Data

Refer to the Index to Consolidated Financial Statements and the Financial Statement Schedule for the required information.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 ("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 annual report. This evaluation was performed under the supervision and with the participation of management, including our 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 annual report.

Management's Report on Internal Control Over Financial Reporting:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our CEO, CFO, and CAO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control — Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation our management concluded that our internal control over financial reporting was effective as of December 30, 2017.

The effectiveness of our internal control over financial reporting as of December 30, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report which is included herein.

Changes in Internal Control Over Financial Reporting:

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item with respect to directors of the company is incorporated herein by reference to the information set forth under the captions “Proposal I — Election of Directors”, “Directors and Corporate Governance”, “Corporate Governance — The Board of Directors and Committees of the Board of Directors”, “Corporate Governance — Relationships Among Certain Directors”, “Audit Committee Report” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the company’s definitive proxy statement for the 2018 Annual Meeting of Shareholders expected to be filed with the SEC in April (the “proxy”). The information required by this item with respect to executive officers of the company is set forth in Part I of this Form 10-K.

We have adopted the Flowers Foods, Inc. Code of Business Conduct and Ethics for Officers and Members of the Board of Directors (the “Code of Business Conduct and Ethics”), which applies to all of our directors and executive officers. The Code of Business Conduct and Ethics is publicly available on our website at www.flowersfoods.com in the “Corporate Governance” section of the “Investor Center” tab. If we make any substantive amendments to our Code of Business Conduct and Ethics or we grant any waiver, including any implicit waiver, from a provision of the Code of Business Conduct and Ethics, that applies to any of our directors or executive officers, including our principal executive officer, principal financial officer or principal accounting officer, we intend to disclose the nature of the amendment or waiver on our website at the same location. Alternatively, we may elect to disclose the amendment or waiver in a current report on Form 8-K filed with the SEC.

Our President and CEO certified to the NYSE on June 23, 2017 pursuant to Section 303A.12 of the NYSE’s listing standards, that he was not aware of any violation by Flowers Foods of the NYSE’s corporate governance listing standards as of that date.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the information set forth under the caption “Executive Compensation” in the proxy.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

See Item 5 of this Form 10-K for information regarding Securities Authorized for Issuance under Equity Compensation Plans. The remaining information required by this item is incorporated herein by reference to the information set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in the proxy.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the information set forth under the caption “Corporate Governance — Determination of Independence” and “Transactions with Management and Others” in the proxy.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the information set forth under the caption “Fiscal 2017 and Fiscal 2016 Audit Firm Fee Summary” in the proxy.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) List of documents filed as part of this report.

1. Financial Statements of the Registrant

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets at December 30, 2017 and December 31, 2016.

Consolidated Statements of Income for Fiscal 2017, Fiscal 2016, and Fiscal 2015.

Consolidated Statements of Comprehensive Income for Fiscal 2017, Fiscal 2016, and Fiscal 2015.

Consolidated Statements of Changes in Stockholders' Equity for Fiscal 2017, Fiscal 2016, and Fiscal 2015.

Consolidated Statements of Cash Flows for Fiscal 2017, Fiscal 2016, and Fiscal 2015.

Notes to Consolidated Financial Statements.

2. Exhibits. The following documents are filed as exhibits hereto:

EXHIBIT INDEX

Exhibit No		Name of Exhibit
2.1	—	Distribution Agreement, dated as of October 26, 2000, by and between Flowers Industries, Inc. and Flowers Foods, Inc. (Incorporated by reference to Exhibit 2.1 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, by and between Flowers Industries, Inc. and Flowers Foods, Inc. (Incorporated by reference to Exhibit 2.2 to Flowers Foods' Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).
2.3	—	Acquisition Agreement, dated as of May 31, 2012, by and among Flowers Foods, Inc., Lobsterco I, LLC, Lepage Bakeries, Inc., RAL, Inc., Bakeast Company, Bakeast Holdings, Inc., and the equityholders named therein (Incorporated by reference to Exhibit 2.1 to Flowers Foods' Current Report on Form 8-K, dated June 1, 2012, File No. 1-16247).
2.4	—	Agreement and Plan of Merger, dated as of May 31, 2012, by and among Flowers Foods, Inc., Lobsterco II, LLC, Aarow Leasing, Inc., The Everest Company, Incorporated and the shareholders named therein (Incorporated by reference to Exhibit 2.2 to Flowers Foods' Current Report on Form 8-K, dated June 1, 2012, File No. 1-16247).
2.5	—	Asset Purchase Agreement, dated as of January 11, 2013, by and among Hostess Brands, Inc., Interstate Brands Corporation, IBC Sales Corporation, Flowers Foods, Inc. and FBC Georgia, LLC (Incorporated by reference to Exhibit 2.1 to Flowers Foods' Current Report on Form 8-K, dated January 14, 2013, File No. 1-16247).
2.6	**	Stock Purchase Agreement, dated as of August 12, 2015, by and among AVB, Inc., Goode Seed Holdings, LLC, Goode Seed Co-Invest, LLC, Glenn Dahl, trustee of the Glenn Dahl Family Trust, U/A/D November 28, 2012, David J. Dahl, trustee of the David Dahl Family Trust, U/A/D May 1, 2012, Shobi L. Dahl, trustee of the Shobi Dahl Family Trust, U/A/D, December 16, 2011, Flowers Bakeries, LLC, Flowers Foods, Inc., and Goode Seed Holdings, LLC, as shareholders' representative (Incorporated by reference to Exhibit 2.6 to Flowers Foods' Quarterly Report on Form 10-Q, dated November 12, 2015, File No. 1-16247).
3.1	—	Restated Articles of Incorporation of Flowers Foods, Inc., as amended through June 5, 2015 (Incorporated by reference to Exhibit 3.1 to Flowers Foods' Current Report on Form 8-K, dated June 10, 2015, File No. 1-16247).
3.2	—	Amended and Restated Bylaws of Flowers Foods, Inc., as amended through June 5, 2015 (Incorporated by reference to Exhibit 3.2 to Flowers Foods' Current Report on Form 8-K, dated June 10, 2015, File No. 1-16247).
4.1	—	Form of Share Certificate of Common Stock of Flowers Foods, Inc. (Incorporated by reference to Exhibit 4.1 to Flowers Foods' Annual Report on Form 10-K, dated February 29, 2012, File No. 1-16247).
4.2	—	Indenture, dated as of April 3, 2012, by and between Flowers Foods, Inc. and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 4.1 to Flowers Foods' Current Report on Form 8-K, dated April 3, 2012, File No. 1-16247).
4.3	—	Officer's Certificate pursuant to Section 2.02 of the Indenture (Incorporated by reference to Exhibit 4.2 to Flowers Foods' Current Report on Form 8-K, dated April 3, 2012, File No. 1-16247).
4.4	—	Form of 4.375% Senior Notes due 2022 (Incorporated by reference to Exhibit 4.3 to Flowers Foods' Current Report on Form 8-K, dated April 3, 2012, File No. 1-16247).
4.5	—	Flowers Foods, Inc. 401(k) Retirement Savings Plan, as amended through December 17, 2013 (Incorporated by reference to Exhibit 4.1 to Flowers Foods' Registration Statement on Form S-8, dated May 21, 2014, File No. 333-196125).

4.6	—	Officer’s Certificate pursuant to Section 2.02 of the Indenture (Incorporated by reference to Exhibit 4.2 to Flowers Foods’ Current Report on Form 8-K, dated September 28, 2016, File No. 1-16247).
4.7	—	Form of 3.500% Senior Notes due 2026 (Incorporated by reference to Exhibit 4.3 to Flowers Foods’ Current Report on Form 8-K, dated September 28, 2016, File No. 1-16247).
10.1	—	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, Cooperative Centrale Raiffeisen-Boerenleenbank B.A., “Rabobank Nederland”, New York Branch, Branch Banking and Trust Company, and Regions Bank, as co-documentation agents, Bank of America, N.A., as syndication agent, and Deutsche Bank AG New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods’ Current Report on Form 8-K, dated May 26, 2011, File No. 1-16247).
10.2	—	First Amendment to Amended and Restated Credit Agreement, dated as of November 16, 2012, by and among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG, New York Branch, as administrative agent, swingline lender and issuing lender (Incorporated by reference to Exhibit 10.1 to Flowers Foods’ Current Report on Form 8-K, dated November 21, 2012, File No. 1-16247).

Exhibit No		Name of Exhibit
10.3	—	Second Amendment to Amended and Restated Credit Agreement, dated as of April 5, 2013, by and among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, swingline lender and issuing lender (Incorporated by reference to Exhibit 10.3 to Flowers Foods' Current Report on Form 8-K, dated April 10, 2013, File No. 1-16247).
10.4	—	Third Amendment to Amended and Restated Credit Agreement, dated as of February 14, 2014, by and among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, swingline lender and issuing lender (Incorporated by reference to Exhibit 10.2 to Flowers Foods' Current Report on Form 8-K, dated February 18, 2014, File No. 1-16247).
10.5	—	Fourth Amendment to Amended and Restated Credit Agreement, dated as of April 21, 2015, by and among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, the swingline lender and issuing lender (Incorporated by reference to Exhibit 10.5 to Flowers Foods' Quarterly Report on Form 10-Q, dated May 28, 2015, File No. 1-16247).
10.6	—	Fifth Amendment to Amended and Restated Credit Agreement, dated as of April 19, 2016, among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, the swingline lender and issuing lender (Incorporated by reference to Exhibit 10.3 to Flowers Foods' Current Report on Form 8-K, dated April 22, 2016, File No. 1-16247).
10.7	—	Sixth Amendment to Amended and Restated Credit Agreement, dated as of November 29, 2017, among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, the swingline lender and issuing lender (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated November 30, 2017, File No. 1-16247).
10.8	—	Credit Agreement, dated as of April 5, 2013, by and among Flowers Foods, Inc., the Lenders party thereto from time to time, Branch Banking and Trust Company, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland", New York Branch, and Regions Bank, as co-documentation agents, Bank of America, N.A., as syndication agent, and Deutsche Bank AG New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated April 10, 2013, File No. 1-16247).
10.9	—	First Amendment to Credit Agreement, dated as of February 14, 2014, by and among Flowers Foods, Inc., the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated February 18, 2014, File No. 1-16247).
10.10	—	Second Amendment to Credit Agreement, dated as of April 19, 2016, among Flowers Foods, Inc., the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.2 to Flowers Foods' Current Report on Form 8-K, dated April 22, 2016, File No. 1-16247).
10.11	—	Receivables Loan, Security and Servicing Agreement, dated as of July 17, 2013, by and among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland," New York Branch, as facility agent and as a committed lender, certain financial institutions party thereto from time to time, and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland", New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated July 22, 2013, File No. 1-16247).
10.12	—	First Amendment to Receivables Loan, Security and Servicing Agreement, dated as of August 7, 2014, by and among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland," New York Branch, as facility agent and as a committed lender, and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland", New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated August 12, 2014, File No. 1-16247).

10.13	—	Second Amendment to Receivables Loan, Security and Servicing Agreement, dated as of December 17, 2014, by and among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., “Rabobank,” New York Branch, as facility agent and as a committed lender, and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., “Rabobank”, New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.9 to Flowers Foods’ Annual Report on Form 10-K, dated February 25, 2015, File No. 1-16247).
10.14	—	Third Amendment and Waiver to Receivables Loan, Security and Servicing Agreement, dated as of August 20, 2015, by and among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation B.V., Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., “Rabobank”, New York Branch, as facility agent and as a committed lender, PNC Bank, National Association, as facility agent and as a committed lender, and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., “Rabobank,” New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.11 to Flowers Foods' Quarterly Report on Form 10-Q, dated November 12, 2015, File No. 1-16247).

Exhibit No		Name of Exhibit
10.15	—	Fourth Amendment to Receivables Loan, Security and Servicing Agreement, dated as of September 30, 2016, by and among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation B.V., Coöperatieve Rabobank U.A., as facility agent and as a committed lender, PNC Bank, National Association, as facility agent and as a committed lender, and Coöperatieve Rabobank U.A., New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated October 3, 2016, File No. 1-16247).
10.16	—	Fifth Amendment to Receivables Loan, Security and Servicing Agreement, dated as of September 28, 2017, among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation B.V., Coöperatieve Rabobank U.A., as facility agent and as a committed lender, PNC Bank, National Association, as facility agent and as a committed lender, and Coöperatieve Rabobank U.A., New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Quarterly Report on Form 10-Q, dated November 8, 2017, File No. 1-16247).
10.17	—	Credit Agreement, dated as of April 19, 2016, among Flowers Foods, Inc., the Lenders party thereto from time to time, Deutsche Bank Securities Inc., as lead arranger and bookrunner, Bank of America, N.A., Branch Banking and Trust Company, Coöperatieve Rabobank U.A., New York Branch, PNC Bank, National Association and Wells Fargo Bank, National Association, as co-documentation agents, Deutsche Bank Securities Inc., as syndication agent, and Deutsche Bank AG New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated April 22, 2016, File No. 1-16247).
10.18	+—	Flowers Foods, Inc. Retirement Plan No. 1, as amended and restated effective as of March 26, 2001 (Incorporated by reference to Exhibit 10.3 to Flowers Foods' Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).
10.19	+—	Flowers Foods, Inc. 2001 Equity and Performance Incentive Plan, as amended and restated effective as of April 1, 2009 (Incorporated by reference to Annex A to Flowers Foods' Proxy Statement on Schedule 14A, dated April 24, 2009, File No. 1-16247).
10.20	+—	Flowers Foods, Inc. Stock Appreciation Rights Plan (Incorporated by reference to Exhibit 10.8 to Flowers Foods' Annual Report on Form 10-K, dated March 29, 2002, File No. 1-16247).
10.21	+—	Flowers Foods, Inc. Annual Executive Bonus Plan (Incorporated by reference to Annex B to Flowers Foods' Proxy Statement on Schedule 14A, dated April 24, 2009, File No. 1-16247).
10.22	+—	Flowers Foods, Inc. 2014 Omnibus Equity and Incentive Compensation Plan (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated May 27, 2014, File No. 1-16247).
10.23	+—	Flowers Foods, Inc. Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.10 to Flowers Foods' Annual Report on Form 10-K, dated March 29, 2002, File No. 1-16247).
10.24	+—	Form of Indemnification Agreement, by and between Flowers Foods, Inc., certain executive officers and the directors of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.14 to Flowers Foods' Annual Report on Form 10-K, dated March 28, 2003, File No. 1-16247).
10.25	+—	Flowers Foods, Inc. 2005 Executive Deferred Compensation Plan, effective as of January 1, 2005 (Incorporated by reference to Exhibit 4.7 of Flowers Foods' Registration Statement on Form S-8, dated December 29, 2008, File No. 333-156471).
10.26	+—	Ninth Amendment to the Flowers Foods, Inc. Retirement Plan No. 1, dated as of November 7, 2005 (Incorporated by reference to Exhibit 10.15 to Flowers Foods' Quarterly Report on Form 10-Q, dated November 17, 2005, File No. 1-16247).
10.27	+—	Flowers Foods, Inc. Change of Control Plan, effective as of February 23, 2012 (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated February 29, 2012, File No. 1-16247).
10.28	+—	Form of 2013 Performance Shares Agreement, by and between Flowers Foods, Inc. and a certain executive officer of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.17 to Flowers Foods' Annual Report on Form 10-K, dated February 20, 2013, File No. 1-16247).

10.30	+—	Form of 2013 Restricted Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.25 to Flowers Foods' Annual Report on Form 10-K, dated February 23, 2017, File No. 1-16247).
10.29	+—	Form of 2016 Performance Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.25 to Flowers Foods' Annual Report on Form 10-K, dated February 24, 2016, File No. 1-16247).
10.30	+—	Form of 2017 Performance Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.28 to Flowers Foods' Annual Report on Form 10-K, dated February 23, 2017, File No. 1-16247).
12	*—	Computation of Ratio of Earnings to Fixed Charges

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Exhibit No		Name of Exhibit
21	*	— Subsidiaries of Flowers Foods, Inc.
23	*	— Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP
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 Allen L. Shiver, Chief Executive Officer, R. Steve Kinsey, Chief Financial Officer and Karyl H. Lauder, Chief Accounting Officer for the Quarter Ended December 30, 2017.
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

** Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission as part of an application for confidential treatment pursuant to Rule 24b-2 promulgated under the Securities Exchange Act of 1934, which application has been granted. Schedules to this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be furnished supplementally to the Securities and Exchange Commission upon request.

\+ Management contract or compensatory plan or arrangement

Item 16. Form 10-K Summary

The company has elected not to provide summary information.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Flowers Foods, Inc. has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on this 21st day of February, 2018.

FLOWERS FOODS, INC.

/s/ ALLEN L. SHIVER
Allen L. Shiver
President and
Chief Executive Officer

/s/ R. STEVE KINSEY
R. Steve Kinsey

Chief Financial Officer and

Chief Administrative Officer

/s/ KARYL H. LAUDER
Karyl H. Lauder
Senior Vice President and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of Flowers Foods, Inc. and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ALLEN L. SHIVER Allen L. Shiver	President and Chief Executive Officer and Director	February 21, 2018
/s/ R. STEVE KINSEY R. Steve Kinsey	Chief Financial Officer and Chief Administrative Officer	February 21, 2018
/s/ KARYL H. LAUDER Karyl H. Lauder	Senior Vice President and Chief Accounting Officer	February 21, 2018
/s/ GEORGE E. DEESE George E. Deese	Chairman	February 21, 2018
/s/ RHONDA O. GASS Rhonda O. Gass	Director	February 21, 2018
/s/ BENJAMIN H. GRISWOLD, IV Benjamin H. Griswold, IV	Director	February 21, 2018
/s/ MARGARET G. LEWIS Margaret G. Lewis	Director	February 21, 2018
/s/ AMOS R. MCMULLIAN Amos R. McMullian	Director	February 21, 2018
/s/ J.V. SHIELDS, JR. J.V. Shields, Jr.	Director	February 21, 2018
/s/ DAVID V. SINGER David V. Singer	Director	February 21, 2018
/s/ JAMES T. SPEAR James T. Spear	Director	February 21, 2018
/s/ MELVIN T. STITH, PH.D. Melvin T. Stith, Ph.D.	Director	February 21, 2018
/s/ C. MARTIN WOOD III C. Martin Wood III	Director	February 21, 2018

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FLOWERS FOODS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Flowers Foods, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Flowers Foods, Inc. and its subsidiaries as of December 30, 2017 and December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 30, 2017, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2017 and December 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP

Atlanta, Georgia

February 21, 2018

We have served as the Company's auditor since at least 1969. We have not determined the specific year we began serving as auditor of the Company.

FLOWERS FOODS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 30, 2017	December 31, 2016
	(Amounts in thousands, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$5,129	$6,410
Accounts and notes receivable, net of allowances of $3,154 and $1,703, respectively	280,050	271,913
Inventories:		
Raw materials	41,710	41,830
Packaging materials	19,638	20,354
Finished goods	49,697	48,698
	111,045	110,882
Spare parts and supplies	61,330	59,509
Other	49,637	28,128
Total current assets	507,191	476,842
Property, Plant and Equipment:		
Land	90,303	89,674
Buildings	462,657	458,200
Machinery and equipment	1,155,485	1,147,861
Furniture, fixtures and transportation equipment	176,515	158,188
Construction in progress	22,019	37,564
	1,906,979	1,891,487
Less: accumulated depreciation	(1,174,953)	(1,110,461)
	732,026	781,026
Notes Receivable from Independent Distributor Partners	187,737	154,924
Assets Held for Sale	15,323	36,976
Other Assets	10,228	9,758
Goodwill	464,777	465,578
Other Intangible Assets, net	742,442	835,964
Total Assets	$2,659,724	$2,761,068
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	$12,095	$11,490
Accounts payable	181,388	173,102
Other accrued liabilities	200,468	156,032
Total current liabilities	393,951	340,624
Long-Term Debt:		
Total long-term debt and capital lease obligations	820,141	946,667
Other Liabilities:		
Post-retirement/post-employment obligations	60,107	69,601
Deferred taxes	82,976	145,854

Other long-term liabilities	51,872	48,242
Total other long-term liabilities	194,955	263,697
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock — $100 stated par value, 200,000 authorized and none issued	—	—
Preferred stock — $.01 stated par value, 800,000 authorized and none issued	—	—
Common stock — $.01 stated par value and $.001 current par value; 500,000,000 authorized shares; 228,729,585 issued shares	199	199
Treasury stock — 18,203,381 and 20,306,784 shares, respectively	(235,493)	(261,812)
Capital in excess of par value	650,872	644,456
Retained earnings	919,658	910,520
Accumulated other comprehensive loss	(84,559)	(83,283)
Total stockholders' equity	1,250,677	1,210,080
Total Liabilities and Stockholders' Equity	$2,659,724	$2,761,068

See Accompanying Notes to Consolidated Financial Statements

FLOWERS FOODS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Fiscal 2017 52 weeks	Fiscal 2016 52 weeks	Fiscal 2015 52 weeks
	(Amounts in thousands, except per share data)		
Sales	$3,920,733	$3,926,885	$3,778,505
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)	2,009,063	2,026,367	1,963,153
Selling, distribution and administrative expenses	1,503,867	1,464,236	1,381,527
Depreciation and amortization	146,719	140,869	132,175
Restructuring and related impairment charges	104,130	—	—
Gain on divestiture	(28,875)	—	—
Pension plan settlement loss	4,649	6,646	—
Multi-employer pension plan withdrawal costs	18,268	—	—
Impairment of assets	—	24,877	3,771
Income from operations	162,912	263,890	297,879
Interest expense	36,557	34,905	26,815
Interest income	(22,938)	(20,552)	(21,967)
Income before income taxes	149,293	249,537	293,031
Income tax expense (benefit)	(827)	85,761	103,840
Net income	$150,120	$163,776	$189,191
Net Income Per Common Share:			
Basic:			
Net income per common share	$0.72	$0.79	$0.90
Weighted average shares outstanding	209,573	208,511	210,793
Diluted:			
Net income per common share	$0.71	$0.78	$0.89
Weighted average shares outstanding	210,435	210,354	213,356
Cash dividends paid per common share	$0.6700	$0.6250	$0.5675

See Accompanying Notes to Consolidated Financial Statements

FLOWERS FOODS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fiscal 2017 52 weeks	Fiscal 2016 52 weeks	Fiscal 2015 52 weeks
	(Amounts in thousands, except per share data)		
Net income	$150,120	$163,776	$189,191
Other comprehensive income, net of tax:			
Pension and postretirement plans:			
Settlement loss	3,072	4,087	—
Net loss for the period	(2,637)	(4,013)	(2,537)
Amortization of prior service credit included in net income	108	108	(164)
Amortization of actuarial loss included in net income	3,603	4,206	2,703
Pension and postretirement plans, net of tax	4,146	4,388	2
Derivative instruments:			
Net change in fair value of derivatives	(6,789)	5,730	(4,195)
Loss reclassified to net income	1,367	3,399	5,413
Derivative instruments, net of tax	(5,422)	9,129	1,218
Other comprehensive income (loss), net of tax	(1,276)	13,517	1,220
Comprehensive income	$148,844	$177,293	$190,411

See Accompanying Notes to Consolidated Financial Statements

FLOWERS FOODS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Number of Shares Issued	Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Number of Shares	Cost	Total
	(Amounts in thousands, except share data)							
Balances at January 3, 2015	228,729,585	$ 199	$ 613,859	$ 809,068	$ (98,020)	(19,382,272)	$ (202,062)	$ 1,123,044
Net income				189,191				189,191
Derivative instruments, net of tax					1,218			1,218
Pension and postretirement plans, net of tax					2			2
Shares issued for acquisition			7,493					