FLOWERS FOODS INC
Form 10-Q
May 16, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 20, 2013

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)	**(I.R.S. Employer Identification Number)**

1919 FLOWERS CIRCLE, THOMASVILLE, GEORGIA

(Address of principal executive offices)

31757

(Zip Code)

229/226-9110

(Registrant s telephone number, including area code)

N/A

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

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

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

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

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

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

TITLE OF EACH CLASS	OUTSTANDING AT MAY 10, 2013
Common Stock, $.01 stated par value	**138,232,858**

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Forward-Looking Statements

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

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

- unexpected changes in any of the following: (i) general economic and business conditions; (ii) the competitive setting in which we operate, including, advertising or promotional strategies by us or our competitors, as well as changes in consumer demand; (iii) interest rates and other terms available to us on our borrowings; (iv) energy and raw materials costs and availability and hedging counter-party risks; (v) relationships with or increased costs related to our employees, independent distributors and third party service providers; and (vi) laws and regulations (including environmental and health-related issues), accounting standards or tax rates in the markets in which we operate;
- the loss or financial instability of any significant customer(s);
- the failure of material acquisition transactions to close;
- our ability to execute our business strategy, which may involve integration of recent acquisitions or the acquisition or disposition of assets at presently targeted values;
- our ability to operate existing, and any new, manufacturing lines according to schedule;
- the level of success we achieve in developing and introducing new products and entering new markets;
- changes in consumer behavior, trends and preferences, including health and whole grain trends, and the movement toward more inexpensive store-branded products;
- our ability to implement new technology and customer requirements as required;
- the credit and business risks associated with independent distributors and our customers which operate in the highly competitive retail food and foodservice industries, including the amount of consolidation in these industries;
- changes in pricing, customer and consumer reaction to pricing actions, and the pricing environment among competitors within the industry;

consolidation within the baking industry and related industries;

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

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

The foregoing list of important factors does not include all such factors, nor necessarily present them in order of importance. In addition, you should consult other disclosures made by the company (such as in our other filings with the Securities and Exchange Commission (SEC) or in company press releases) for other factors that may cause actual results to differ materially from those projected by the company. Please refer to Part I, Item 1A., *Risk Factors*, of our Form 10-K filed on February 20, 2013 for additional information regarding factors that could affect the company s results of operations, financial condition and liquidity.

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

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

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FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	April 20, 2013	December 29, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 14,246	$ 13,275
Accounts and notes receivable, net of allowances of $2,411 and $386, respectively	267,472	256,235
Inventories, net:		
Raw materials	33,296	32,731
Packaging materials	21,330	18,885
Finished goods	40,310	39,394
	94,936	91,010
Spare parts and supplies	46,164	45,239
Deferred taxes	33,635	29,198
Deposits	18,000	
Other	30,130	29,494
Total current assets	504,583	464,451
Property, Plant and Equipment, net of accumulated depreciation of $838,703 and $811,161, respectively	720,291	725,836
Notes Receivable	103,379	102,723
Assets Held for Sale Distributor Routes	63,595	30,116
Contingently refundable consideration	7,600	
Other Assets	14,951	14,442
Goodwill	270,154	269,897
Other Intangible Assets, net	476,045	388,384
Total assets	$ 2,160,598	$ 1,995,849
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		

Current maturities of long-term debt	$ 38,146	$ 71,996
Accounts payable	152,225	153,956
Other accrued liabilities	141,957	129,006
Total current liabilities	332,328	354,958
Long-Term Debt and Capital Leases	201,386	135,905
4.375% senior notes due 2022	399,141	399,111
Total long-term debt	600,527	535,016
Other Liabilities:		
Post-retirement/post-employment obligations	156,095	159,158
Deferred taxes	74,751	39,206
Other	50,673	48,891
Total other liabilities	281,519	247,255
Stockholders Equity:		
Preferred stock $100 stated par value, 200,000 authorized and none issued		
Preferred stock $.01 stated par value, 800,000 authorized and none issued		
Common stock $.01 stated par value and $.001 current par value, 500,000,000 authorized shares, 152,488,008 shares and 152,488,008 shares issued, respectively	199	199
Treasury stock 14,255,150 shares and 14,214,819 shares, respectively	(198,922)	(196,465)
Capital in excess of par value	577,472	571,924
Retained earnings	688,787	597,629
Accumulated other comprehensive loss	(121,312)	(114,667)
Total stockholders equity	946,224	858,620
Total liabilities and stockholders equity	$ 2,160,598	$ 1,995,849

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)

(Unaudited)

	For the Sixteen Weeks Ended	
	April 20, 2013	**April 21, 2012**
Sales	$ 1,130,810	$ 898,206
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)	585,298	478,978
Selling, distribution and administrative expenses	411,439	330,272
Depreciation and amortization	34,189	29,739
Gain on acquisition	(51,320)	
Income from operations	151,204	59,217
Interest expense	(8,819)	(4,229)
Interest income	4,264	4,205
Income before income taxes	146,649	59,193
Income tax expense	33,374	21,250
Net income	$ 113,275	$ 37,943
Net Income Per Common Share:		
Basic:		
Net income per common share	$ 0.82	$ 0.28
Weighted average shares outstanding	138,111	135,496
Diluted:		
Net income per common share	$ 0.81	$ 0.28
Weighted average shares outstanding	140,610	137,182
Cash dividends paid per common share	$ 0.160	$ 0.150

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands, except per share data)

(Unaudited)

	For the Sixteen Weeks Ended	
	April 20, 2013	**April 21, 2012**
Net income	$ 113,275	$ 37,943
Other comprehensive income, net of tax:		
Pension and postretirement plans:		
Amortization of prior service (credit) cost included in net income	(49)	(49)
Amortization of actuarial loss included in net income	1,018	906
Pension and postretirement plans, net of tax	969	857
Derivative instruments:		
Net change in fair value of derivatives	(8,621)	(7,009)
Loss reclassified to net income	1,007	10,036
Derivative instruments, net of tax	(7,614)	3,027
Other comprehensive (loss) income, net of tax	(6,645)	3,884
Comprehensive income	$ 106,630	$ 41,827

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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FLOWERS FOODS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(Amounts in thousands, except share data)

(Unaudited)

	Common Stock		Capital in Excess		Accumulated Other	Treasury Stock		
	Number of shares issued	Par Value	of Par Value	Retained Earnings	Comprehensive Income (Loss)	Number of shares	Cost	Total
Balances at December 29, 2012	152,488,008	$ 199	$ 571,924	$ 597,629	$ (114,667)	(14,214,819)	$ (196,465)	$ 858,620
Net income				113,275				113,275
Derivative instruments, net of tax					(7,614)			(7,614)
Pension and postretirement plans, net of tax					969			969
Exercise of stock options			20			9,000	126	146
Deferred stock issuance			(333)			24,060	333	
Amortization of share-based payment awards			4,884					4,884
Tax benefits related to share-based payment awards			2,237					2,237
Performance-contingent restricted stock awards supplemental grant for exceeding TSR (note 12)			(874)			63,232	874	
Stock repurchases						(136,623)	(3,790)	(3,790)
Dividends paid on vested performance-contingent restricted stock awards			(386)					(386)
Dividends paid $0.160 per common share				(22,117)				(22,117)
Balances at April 20, 2013	152,488,008	$ 199	$ 577,472	$ 688,787	$ (121,312)	(14,255,150)	$ (198,922)	$ 946,224

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	For the Sixteen Weeks Ended	
	April 20, 2013	**April 21, 2012**
CASH FLOWS PROVIDED BY (DISBURSED FOR) OPERATING ACTIVITIES:		
Net income	$ 113,275	$ 37,943
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on acquisition	(51,320)	
Stock-based compensation	6,075	3,064
Loss reclassified from accumulated other comprehensive income to net income	1,095	15,360
Depreciation and amortization	34,189	29,739
Deferred income taxes	(3,140)	573
Provision for inventory obsolescence	398	413
Allowances for accounts receivable	1,998	660
Pension and postretirement plans (income) expense	(628)	483
Other	(1,478)	(500)
Pension contributions	(484)	(12,055)
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	(12,769)	(15,819)
Inventories, net	(4,324)	(6,038)
Hedging activities, net	(19,209)	(6,483)
Other assets	4,829	14,356
Accounts payable	1,523	296
Other accrued liabilities	16,799	(1,879)
NET CASH PROVIDED BY OPERATING ACTIVITIES	86,829	60,113
CASH FLOWS (DISBURSED FOR) INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(22,558)	(14,288)
Proceeds from sale of property, plant and equipment	1,123	470
Repurchase of independent distributor territories	(16,841)	(4,388)
Principal payments from notes receivable	6,336	4,799
Proceeds from sales of distribution territories	7,570	
Deposit paid for potential acquisition	(18,000)	
Acquisition of businesses, net of cash acquired	(49,950)	
NET CASH DISBURSED FOR INVESTING ACTIVITIES	(92,320)	(13,407)
CASH FLOWS PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES:		
Dividends paid	(22,503)	(20,570)
Exercise of stock options	146	233
Excess windfall tax benefit related to share-based payment awards	2,237	60
Payments for debt issuance costs		(3,766)
Payments for financing fees	(1,270)	
Stock repurchases	(3,790)	(1,354)
Change in bank overdraft	(488)	(9,064)
Proceeds from debt borrowings	595,200	731,340
Debt and capital lease obligation payments	(563,070)	(565,221)

NET CASH PROVIDED BY FINANCING ACTIVITIES	6,462	131,658
Net increase in cash and cash equivalents	971	178,364
Cash and cash equivalents at beginning of period	13,275	7,783
Cash and cash equivalents at end of period	$ 14,246	$ 186,147

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

INTERIM FINANCIAL STATEMENTS The accompanying unaudited condensed consolidated financial statements of Flowers Foods, Inc. (the company) have been prepared by the company s management in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, the unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of normal recurring adjustments) necessary to state fairly the company s financial position, the results of its operations and its cash flows. The results of operations for the sixteen week periods ended April 20, 2013 and April 21, 2012 are not necessarily indicative of the results to be expected for a full year. The balance sheet at December 29, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the company s Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

ESTIMATES The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The company believes the following critical accounting estimates affect its more significant judgments and estimates used in the preparation of its consolidated financial statements: revenue recognition, derivative instruments, valuation of long-lived assets, goodwill and other intangibles, self-insurance reserves, income tax expense and accruals and pension obligations. These estimates are summarized in the company s Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

REPORTING PERIODS The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2013 consists of 52 weeks, with the company s quarterly reporting periods as follows: first quarter ended April 20, 2013 (sixteen weeks), second quarter ending July 13, 2013 (twelve weeks), third quarter ending October 5, 2013 (twelve weeks) and fourth quarter ending December 28, 2013 (twelve weeks).

SEGMENTS Flowers Foods currently operates two business segments: a direct-store-delivery segment (DSD segment) and a warehouse delivery segment (warehouse segment). The DSD segment (82% of total sales) operates 35 bakeries that market a wide variety of fresh bakery foods, including fresh breads, buns, rolls, tortillas, and snack cakes. These products are sold through a DSD route delivery system to retail and foodservice customers in the Southeast, Mid-Atlantic, New England, and Southwest as well as in select markets in California and Nevada. The warehouse segment (18% of total sales) operates 9 bakeries that produce snack cakes and breads and rolls for national retail, foodservice, vending, and co-pack customers and deliver through customers warehouse channels. The warehouse segment also operates one mix facility.

SIGNIFICANT CUSTOMER Following is the effect our largest customer, Wal-Mart/Sam s Club, had on the company s sales for the sixteen weeks ended April 20, 2013 and April 21, 2012. No other customer accounted for 10% or more of the company s sales.

	For the Sixteen Weeks Ended	
	April 20, 2013	April 21, 2012
	(Percent of Sales)	
DSD	16.9%	17.6%
Warehouse delivery	3.5	3.7
Total	20.4%	21.3%

SIGNIFICANT ACCOUNTING POLICIES There were no significant changes to our critical accounting policies for the quarter ended April 20, 2013 from those disclosed in the company s Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

ACQUISITION On February 25, 2013, the company announced the completion of its acquisition from BBU, Inc., a subsidiary of Grupo Bimbo S.A.B. de C.V. (BBU), of (1) the perpetual, exclusive, and royalty-free licenses to the *Sara Lee* and *Earthgrains* brands for sliced breads, buns, and rolls in the state of California and (2) a closed bakery in Stockton, California for a total cash payment of $50.0 million. Additional disclosure regarding the acquisition is included in Note 4, *Acquisitions*.

On January 11, 2013, the company announced it signed two asset purchase agreements with Hostess Brands, Inc. (Hostess), as the stalking horse bidder for certain Hostess assets. One of the agreements provides for the purchase by Flowers of the *Wonder*, *Nature s Pride*, *Merita*, *Home Pride* and *Butternut* bread brands, 20 bakeries, and approximately 38 depots for a purchase price of $360.0 million (the first bid). The other agreement provides for the purchase by the company of the *Beefsteak* brand for $30.0 million (the second bid). The stalking horse bids were approved on January 25, 2013 and on February 28, 2013, our first bid was declared the highest and best bid for such assets. The second bid was topped by another bidder and we chose not to increase our bid. As a result, that agreement terminated and we have no further obligations under it. The first bid has now moved to regulatory review and we expect the process to be completed during the second half of the year. We also received a break-up fee of $0.9 million during the first quarter of 2013 relating to the topping of the second bid. The company paid $18.0 million as a deposit for the first bid, which will be applied to the purchase price related to the first bid if that acquisition closes, or returned to the company if that acquisition does not close. This amount is recorded in other current assets on the condensed consolidated balance sheet.

2. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In December 2011, the FASB issued guidance for offsetting (netting) assets and liabilities. This guidance requires entities to disclose both gross information and net information about both instruments and transactions subject to an agreement similar to a master netting agreement. This includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. These disclosures allow users of the financial statements to understand the effect of those arrangements on its financial position. In January 2013 an amendment was issued for this guidance. This amendment clarifies that the scope applies to derivative accounting including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. This guidance is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. These requirements are retrospective for all comparative periods. The company is still analyzing the potential impact of this guidance on the company s consolidated financial statements. This guidance will be effective for our fiscal 2014 which begins on December 29, 2013. Our fiscal 2013 began on December 30, 2012 which was before the effective date of this new guidance.

3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The company s total comprehensive income presently consists of net income, adjustments for our derivative financial instruments accounted for as cash flow hedges, and various pension and other postretirement benefit related items.

During the sixteen weeks ended April 20, 2013, reclassifications out of accumulated other comprehensive loss were as follows (amounts in thousands):

Details about accumulated other comprehensive income components		Amount reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
Gains and losses on cash flow hedges:			
Interest rate contracts	$	(542)	Interest income (expense)
Commodity contracts		(1,095)	Cost of sales, Note 3
Total before tax	$	(1,637)	Total before tax
Tax (expense) or benefit		(630)	Tax (expense) or benefit
Total net of tax	$	(1,007)	Net of tax
Amortization of defined benefit pension items:			
Prior-service credits	$	79	Note 1, below
Actuarial losses		(1,655)	Note 1, below
Total before tax	$	(1,576)	Total before tax
Tax (expense) or benefit		(607)	Tax (expense) or benefit
Total net of tax	$	(969)	Net of tax
Total reclassifications	$	(1,976)	Net of tax

Note 1: These items are included in the computation of net periodic pension cost. See Note 13, *Postretirement Plans*, for additional information.

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

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

During the sixteen weeks ended April 20, 2013, changes to accumulated other comprehensive loss, net of income tax, by component were as follows (amounts in thousands):

	Gains/Losses on Cash Flow Hedges	Defined Benefit Pension Plan Items	Total
Accumulated other comprehensive loss, December 29, 2012	$ (4,100)	$ (110,567)	$ (114,667)
Other comprehensive income before reclassifications	(8,621)		(8,621)
Reclassified to earnings from accumulated other comprehensive income	1,007	969	1,976
Accumulated other comprehensive loss, April 20, 2013	$ (11,714)	$ (109,598)	$ (121,312)

4. ACQUISITIONS

Sara Lee and Earthgrains acquisition of trademark licenses

On February 23, 2013, the company completed its acquisition from BBU of (1) the perpetual, exclusive, and royalty-free licenses to the *Sara Lee* and *Earthgrains* brands for sliced breads, buns, and rolls in the state of California and (2) a closed bakery in Stockton, California for a total cash payment of $50.0 million. In addition, we received a perpetual, exclusive, and royalty-free license to the *Earthgrains* brand for a broad range of fresh bakery products in the Oklahoma City, Oklahoma market area. The acquisition of the Oklahoma license was completed during fiscal 2012 for an immaterial cost. These acquisitions are included in our DSD segment.

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

Fair value of consideration transferred:	
Cash consideration transferred	$ 49,950
Contingently refundable consideration (the holdback)	(7,600)
Total consideration, net	$ 42,350
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Property, plant, and equipment	$ 6,476
Identifiable intangible asset distribution rights	27,822
Identifiable intangible asset trademark	79,500
Identifiable intangible asset customer relationships	12,000
Deferred income taxes, net	(32,128)
Net recognized amounts of identifiable assets acquired	$ 93,670
Bargain purchase gain	$ 51,320

The primary reason for this trademark acquisition was to expand the company s footprint into the California markets. The trademark is a non-amortizable asset and the customer relationships are being amortized over 12 years. We believe the acquisition resulted in a bargain purchase because the U.S. Department of Justice (the DOJ) required BBU to divest these assets, which resulted in a more favorable price to us than would have normally resulted from an arms-length negotiation. The bargain purchase gain is recognized in the line item Gain on acquisition . The above purchase price allocation is preliminary.

During negotiations with the divestiture trustee, a holdback provision (the holdback) was inserted into the executed agreement. The holdback is an amount of $10.0 million of the cash consideration transferred at closing that will remain in escrow until disbursed based on the possible occurrence of one of two triggering events. The purpose of the holdback is to encourage the company to increase production capacity serving the California market. The first triggering event relates to the co-pack arrangement and the second triggering event relates to the opening of the Stockton Bakery. We entered into a co-pack arrangement with BBU at the acquisition date under which BBU is required to supply the company with *Sara Lee* branded product for a period of up to 18 months ending August 17, 2014. If we terminate the co-pack agreement (co-pack decision) or reopen the Stockton Bakery (bakery decision) potential payments from the holdback amount will be made to us and are determined based on specified dates for those actions. The table below reflects the potential payments under each scenario (amounts in thousands):

	February 23, 2013 November 20, 2013	**November 21, 2013 February 18, 2014**	**February 19, 2014 May 19, 2014**	**May 20, 2014 August 17, 2014**
Co-pack decision	$ 10,000	$ 7,500	$ 5,000	$
Bakery decision	$ 10,000	$ 10,000	$ 7,500	$ 5,000

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If we do not make the co-pack decision or the bakery decision by August 17, 2014, any remaining amount of the holdback will be distributed to BBU. The holdback fair value of $7.6 million represents our assessment of the probability that we will terminate the co-pack arrangement and/or open the Stockton bakery. This probability will be assessed at each reporting period and changes in the fair value of the holdback will be recorded through earnings in the period of change. The holdback amount is recorded in other assets on the condensed consolidated balance sheet.

The sales included since acquisition during the sixteen weeks ended April 20, 2013 were $10.7 million. We incurred $1.3 million in acquisition-related costs during the first quarter of 2013 for the *Sara Lee* and *Earthgrains* asset purchase. These expenses are included in the selling, distribution and administrative line item in the company s condensed consolidated statement of income. Subsequent to the acquisition we are developing distribution territories to sell to independent distributors who will serve California. The territory development will take part in several stages over the remainder of fiscal 2013. The distribution rights intangible asset was recharacterized to territories held for sale immediately subsequent to the acquisition as a result of our decision to develop and market these territories. The distributor routes caused the significant increase in the assets held for sale as reported on the condensed consolidated balance sheet.

Lepage Acquisition

On July 21, 2012, we completed the acquisition of Lepage Bakeries, Inc. (Lepage) in two separate but concurrent transactions. Pursuant to the Acquisition Agreement dated May 31, 2012 (the Acquisition Agreement), by and among Flowers, Lobsterco I, LLC, a Maine single-member limited liability company and direct wholly owned subsidiary of Flowers (Lobsterco I), Lepage, RAL, Inc., a Maine corporation (RAL), Bakeast Company, a Maine general partnership (Bakeast Partnership), Bakeast Holdings, Inc., a Delaware corporation (Bakeast Holdings, and collectively with Lepage, RAL and Bakeast Partnership, the Acquired Entities), and the equityholders of the Acquired Entities named in the Acquisition Agreement (collectively, the Equityholders), Lobsterco I purchased from the Equityholders all of the issued and outstanding shares of the Acquired Entities in exchange for approximately $318.4 million in cash and $17.7 million in deferred obligations, which is the fair value of gross payments of $20.0 million.

Pursuant to the Agreement and Plan of Merger dated May 31, 2012 (the Merger Agreement), by and among Flowers, Lobsterco II, LLC, a Maine single-member limited liability company and direct wholly owned subsidiary of Flowers (Lobsterco II), Aarow Leasing, Inc., a Maine corporation (Aarow), The Everest Company, Incorporated, a Maine corporation (Everest, and together with Aarow, the Acquired Companies), and certain equityholders of Lepage, the Acquired Companies merged with and into Lobsterco II (the Merger) and all of the issued and outstanding shares of common stock of the Acquired Companies were exchanged for 2,178,648 shares of Flowers common stock.

Lepage operates three bakeries, two in Lewiston, Maine, and one in Brattleboro, Vermont. Lepage serves customers in the New England and New York markets with fresh bakery products sold under the *Country Kitchen* and *Barowsky s* brands. This acquisition provides a DSD platform to accelerate penetration of *Nature s Own* and *Tastykake* brands in the Northeast. The Lepage acquisition has been accounted for as a business combination. The results of Lepage s operations are included in the company s consolidated financial statements beginning on July 21, 2012 and are included in the company s DSD operating segment.

The preliminary aggregate purchase price was $381.9 million as described in the table below. We incurred $7.1 million in acquisition-related costs during fiscal 2012 for Lepage. These expenses are included in the selling, distribution and administrative line item in the company s consolidated statement of income for the fifty-two weeks ending on December 29, 2012.

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

Fair value of consideration transferred:	
Cash	$ 300,000
Cash paid for preliminary tax adjustment	18,426
Net working capital adjustment estimate	121
Deferred payment obligations	17,663
Flowers Foods, Inc. common stock	45,887
Total fair value of consideration transferred	$ 382,097
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Financial assets	$ 11,658
Inventories	4,537
Property, plant, and equipment	59,970
Assets held for sale Distributor routes	16,161
Identifiable intangible assets estimate	256,400
Deferred income taxes, net	(1,137)
Financial liabilities	(15,698)
Net recognized amounts of identifiable assets acquired	$ 331,891
Goodwill	$ 50,206

The $18.4 million cash payment for the preliminary tax adjustment is the amount paid to the Lepage equityholders at the closing of the acquisition in connection with certain incremental tax liabilities incurred by those equityholders at the joint election under Section 338(h)(10) of the Internal Revenue Code. There is an additional $2.1 million preliminary tax adjustment (recorded in the financial liabilities figure in the table above) that the company will pay for entity level state taxes. Goodwill increased $0.3 million during the sixteen weeks ended April 20, 2013 for a working capital adjustment.

The $17.7 million obligation for the deferred payments represents the fair value of the fixed payments of $1,250,000 beginning on the first business day of each of the sixteen calendar quarters following the fourth anniversary of the closing of the acquisition (total of $20.0 million in gross payments). The first payment will be made by Flowers on October 1, 2016 and the final payment will be made on July 1, 2020. The difference between the fair value and the gross payments of $2.3 million is recorded as a reduction to the liability and is being amortized to interest expense over eight years.

We issued 2,178,648 shares of Flowers common stock to certain equityholders of Lepage with a fair value of $45.9 million. The number of shares issued was calculated by dividing $50.0 million by the average closing price of Flowers common stock for the twenty consecutive trading day period ending five trading days prior to the closing. The shares issued to the equityholders were separated into five categories with each category having a different holding period requirement. As a result, each holding period had a fair value assignment based on an implied fair value which was determined using the Black-Scholes call option formula for an option expiring on each restriction lapse date. The estimated exercise price is equal to the stock price on the last trading day before the closing on July 21, 2012 of $20.48. The table below outlines the determination of fair value and provides the assumptions used in the calculation:

Restriction lapse year	2012	2013	2014	2015	2016	Total
Value of Flowers shares issued (thousands)	$ 25,000	$ 10,000	$ 5,000	$ 5,000	$ 5,000	$ 50,000
Implied fair value of restricted shares (thousands)	$ 23,626	$ 9,154	$ 4,447	$ 4,363	$ 4,297	$ 45,887
Exercise price (per share)	$ 20.48	$ 20.48	$ 20.48	$ 20.48	$ 20.48	
Expected term (yrs)	0.37	1.00	2.00	3.00	4.00	
Volatility (%)	25.0%	25.0%	25.0%	25.0%	25.0%	

Risk-free rate (%)	0.1%	0.2%	0.2%	0.3%	0.4%
Dividend yield (%)	3.0%	3.0%	3.0%	3.0%	3.0%

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

	Amount	Weighted average amortization years
Customer relationships	$ 69,000	25.0
Non-compete agreements	2,400	4.0
	$ 71,400	24.3

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The primary reasons for the acquisition are to expand the company s footprint into the northeastern United States, to distribute *Country Kitchen* and *Barowsky s* products throughout our distribution network and to distribute *Nature s Own* and *Tastykake* products throughout the Lepage territories. In addition to the amortizable intangible assets, there is an additional $185.0 million in indefinite-lived trademark intangible assets. Goodwill of $50.2 million is allocated to the DSD segment. Approximately $10.2 million of goodwill is deductible for income tax purposes.

The fair value of trade receivables is $7.4 million. The gross amount of the receivable is $7.5 million of which $0.1 million is determined to be uncollectible. We did not acquire any other class of receivables as a result of the acquisition.

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition of Lepage occurred at the beginning of fiscal 2012 (amounts in thousands, except per share data). Unaudited pro forma consolidated results of operations for the *Sara Lee* and *Earthgrains* asset acquisitions are not included because the company determined that it is immaterial.

	For the Sixteen Weeks Ended April 21, 2012
Sales:	
As reported	$ 898,206
Pro forma	$ 948,382
Net income:	
As reported	$ 37,943
Pro forma	$ 38,438
Basic net income per common share:	
As reported	$ 0.28
Pro forma	$ 0.28
Diluted net income per common share:	
As reported	$ 0.28
Pro forma	$ 0.28

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

5. GOODWILL AND OTHER INTANGIBLES

Goodwill activity for the sixteen weeks ended April 20, 2013 and the balances as of April 20, 2013 are as follows (amounts in thousands):

	DSD	Warehouse	Total
Balance as of December 29, 2012	$ 262,796	$ 7,101	$ 269,897
Increase in goodwill related to acquisitions (Note 4)	257		257
Balance as of April 20, 2013	$ 263,053	$ 7,101	$ 270,154

As of April 20, 2013 and December 29, 2012, the company had the following amounts related to amortizable intangible assets (amounts in thousands):

	April 20, 2013			December 29, 2012		
Asset	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value
Trademarks	$ 71,727	$ 9,998	$ 61,729	$ 71,727	$ 9,243	$ 62,484

Customer relationships	169,921	26,658	143,263	157,921	24,275	133,646
Non-compete agreements	4,274	2,335	1,939	4,274	1,719	2,555
Distributor relationships	4,123	1,009	3,114	4,123	924	3,199
Supply agreement	1,050	1,050		1,050	1,050	
Total	$ 251,095	$ 41,050	$ 210,045	$ 239,095	$ 37,211	$ 201,884

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There are $266.0 million and $186.5 million of indefinite life intangible assets at April 20, 2013 and December 29, 2012, respectively. These are not being amortized and are separately identified from goodwill. The distribution rights intangible asset acquired in the *Sara Lee* California transaction was recorded to assets held for sale immediately subsequent to acquisition because we made the decision to disaggregate our distribution rights in California to the independent distributor model we use to deliver our products.

Aggregate amortization expense for the sixteen weeks ending April 20, 2013 and April 21, 2012 were $3.4 million and $2.5 million, respectively.

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

	Amortization of Intangibles
Remainder of 2013	$ 7,888
2014	$ 11,238
2015	$ 11,045
2016	$ 10,671
2017	$ 10,251

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable and short-term debt approximates fair value because of the short-term maturity of the instruments. Notes receivable are entered into in connection with the purchase of distributors territories by independent distributors. These notes receivable are recorded in the consolidated balance sheet at carrying value, which represents the closest approximation of fair value. In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a result, the appropriate interest rate that should be used to estimate the fair value of the distributor notes is the prevailing market rate at which similar loans would be made to distributors with similar credit ratings and for the same maturities. However, the company finances approximately 2,900 independent distributors all with varied financial histories and credit risks. Considering the diversity of credit risks among the independent distributors, the company has no method to accurately determine a market interest rate to apply to the notes. The territories are generally financed for up to ten years and the distributor notes are collateralized by the independent distributors territories. The company maintains a wholly-owned subsidiary to assist in financing route purchase activities if requested by new independent sales distributors, using the route and certain associated assets as collateral. These notes receivable earn interest based on Treasury or LIBOR yields plus a spread.

At April 20, 2013 and December 29, 2012, respectively, the carrying value of the distributor notes was as follows (amounts in thousands):

	April 20, 2013	December 29, 2012
Distributor notes receivable	$ 119,604	$ 118,481
Current portion of distributor notes receivable recorded in accounts and notes receivable, net	16,225	15,758
Long-term portion of distributor notes receivable	$ 103,379	$ 102,723

At April 20, 2013 and December 29, 2012, the company has evaluated the collectability of the distributor notes and determined that a reserve is not necessary. Payments on these distributor notes are collected by the company weekly in conjunction with the distributor settlement process.

During the sixteen weeks ending April 20, 2013 and April 21, 2012, $4.3 million and $4.2 million, respectively, was recorded as interest income relating to the distributor notes.

The fair value of the company s variable rate debt at April 20, 2013 approximates the recorded value. The fair value of the company s ten-year 4.375% Senior Notes (the notes) issued on April 3, 2012 is approximately $413.7 million while the carrying value is $399.1 million, as discussed in Note 8, *Debt and Other Obligations*, on April 20, 2013. The fair value of the notes is estimated using yields obtained from independent pricing sources for similar types of borrowing arrangements and is considered a Level 2 valuation.

For fair value disclosure information about our derivative assets and liabilities see Note 7, *Derivative Financial Instruments*. For fair value disclosure information about our pension plan net assets see Note 13, *Postretirement Plans*.

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7. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

COMMODITY PRICE RISK

The company enters into commodity derivatives, designated as cash-flow hedges of existing or future exposure to changes in commodity prices. The company s primary raw materials are flour, sweeteners and shortening, along with pulp, paper and petroleum-based packaging products. Natural gas, which is used as oven fuel, is also an important commodity input to production. In addition, we utilize an immaterial amount of weather derivatives that are not classified as cash-flow hedges.

As of April 20, 2013, the company s hedge portfolio contained commodity derivatives with a net fair value of $(6.8) million, which is recorded in the following accounts with fair values measured as indicated (amounts in millions):

	Level 1	Level 2	Level 3	Total
Assets:				
Other current	$	$ 1.0	$	$ 1.0
Other long-term		0.1		0.1
Total		1.1		1.1
Liabilities:				
Other current	(7.9)			(7.9)
Other long-term				
Total	(7.9)			(7.9)
Net Fair Value	$ (7.9)	$ 1.1	$	$ (6.8)

The positions held in the portfolio are used to hedge economic exposure to changes in various raw material prices and effectively fix the price, or limit increases in prices, for a period of time extending into fiscal 2016. These instruments are designated as cash-flow hedges. The effective portion of changes in fair value for these derivatives is recorded each period in other comprehensive income (loss), and any ineffective portion of the change in fair value is recorded to current period earnings in selling, distribution and administrative expenses. All of the company-held commodity derivatives at April 20, 2013 and December 29, 2012 qualified for hedge accounting, except for certain immaterial weather derivatives.

INTEREST RATE RISK

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

The company entered into interest rate swaps with notional amounts of $85.0 million, and $65.0 million, respectively, to fix the interest rate on the $150.0 million term loan secured on August 1, 2008 to fund the acquisitions of ButterKrust Bakery and Holsum Bakery, Inc. The current notional amount for the swaps of this amortizing loan is $33.8 million.

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

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As of April 20, 2013, the fair value of the interest rate swaps was $(0.3) million, which is recorded in the following accounts with fair values measured as indicated (amounts in millions):

	Level 1	Level 2	Level 3	Total
Liabilities:				
Other current	$	$ (0.3)	$	$ (0.3)
Total		(0.3)		(0.3)
Net Fair Value	$	$ (0.3)	$	$ (0.3)

During the sixteen weeks ended April 20, 2013, interest expense of $0.5 million was recognized due to periodic settlements of the swap agreements.

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

	Derivative Assets				Derivative Liabilities			
	April 20, 2013		December 29, 2012		April 20, 2013		December 29, 2012	
Derivatives designated as hedging instruments	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value
Interest rate contracts		$		$	Other current liabilities	$ 331	Other current liabilities	$ 867
Interest rate contracts					Other long term liabilities		Other long term liabilities	
Commodity contracts	Other current assets	1,015	Other current assets		Other current liabilities	7,886	Other current liabilities	3.047
Commodity contracts	Other long term assets	64	Other long term assets	9	Other long term liabilities	39	Other long term liabilities	146
Total		$ 1,079		$ 9		$ 8,256		$ 4,060

The following tables show the effect of the company s derivative instruments designated as cash-flow hedges in other comprehensive income (loss) (OCI) and the condensed consolidated income statement (amounts in thousands and net of tax):

Derivatives designated as hedging instruments	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)(Net of tax) For the sixteen weeks ended April 20, 2013	April 21, 2012	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)(Net of tax) For the sixteen weeks ended April 20, 2013	April 21, 2012
Interest rate contracts	$ (296)	$ (1,548)	Interest expense	$ (334)	$ (590)
Commodity contracts	(8,325)	(5,461)	Production costs(1)	(673)	(9,446)
Total	$ (8,621)	$ (7,009)		$ (1,007)	$ (10,036)

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

Derivatives in Cash Flow Hedge Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**	**Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) For the sixteen weeks ended April 20, 2013**	**April 21, 2012**
Interest rate contracts	Selling, marketing and administrative expenses	$	$ (627)
Commodity contracts	Selling, marketing and administrative expenses		
Total		$	$ (627)

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The balance in accumulated other comprehensive income (loss) related to commodity price risk and interest rate risk derivative transactions that are closed or will expire in the next four years are as follows (amounts in millions and net of tax) at April 20, 2013:

	Commodity price risk derivatives	Interest rate risk derivatives	Totals
Closed contracts	$ 5.9	$ 1.3	$ 7.2
Expiring in 2013	4.2	0.2	4.4
Expiring in 2014			
Expiring in 2015			
Expiring in 2016	0.1		0.1
Total	$ 10.2	$ 1.5	$ 11.7

As of April 20, 2013, the company had the following outstanding financial contracts that were entered to hedge commodity and interest rate risk:

Derivatives in Cash Flow Hedge Relationships	Notional amount (millions)
Interest rate contracts	$ 33.8
Wheat contracts	133.8
Soybean oil contracts	23.2
Natural gas contracts	18.7
Total	$ 209.5

The company s derivative instruments contain no credit-risk-related contingent features at April 20, 2013. As of April 20, 2013 and December 29, 2012, the company had $17.8 million and $9.0 million, respectively, in other current assets representing collateral for hedged positions.

8. DEBT AND OTHER OBLIGATIONS

Long-term debt and capital leases consisted of the following at April 20, 2013 and December 29, 2012 (amounts in thousands):

	April 21, 2012	December 29,2012
Unsecured credit facility	$ 176,700	$ 110,500
Unsecured term loan	33,750	67,500
4.375% Senior notes due 2022	399,141	399,111
Capital lease obligations	9,812	10,627
Other notes payable	19,270	19,274
	638,673	607,012
Less current maturities of long-term debt	38,146	71,996
Total long-term debt	$ 600,527	$ 535,016

Bank overdrafts occur when checks have been issued but have not been presented to the bank for payment. Certain of our banks allow us to delay funding of issued checks until the checks are presented for payment. A delay in funding results in a temporary source of financing from the bank. The activity related to bank overdrafts is shown as a financing activity in our consolidated statements of cash flows. Bank overdrafts are included in other current liabilities on our consolidated balance sheets. As of April 20, 2013 and December 29, 2012, the bank overdraft balance was $16.4 million and $16.8 million, respectively.

The company also had standby letters of credit (LOCs) outstanding of $15.6 million and $15.8 million at April 20, 2013 and December 29, 2012, respectively, which reduce the availability of funds under the credit facility. The outstanding LOCs are for the benefit of certain insurance companies and lessors. None of the LOCs are recorded as a liability on the consolidated balance sheets.

Senior Notes, Credit Facility, and Term Loan

New Term Loan. On April 5, 2013, the company entered into a senior unsecured delayed-draw term facility (the new term loan) with a commitment of up to $300.0 million to partially finance the pending acquisition of certain brands and assets of Hostess and pay acquisition-related costs and expenses. The company expects to draw the funds at the completion of the Hostess asset purchase.

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The new term loan will amortize in quarterly installments based on the annual percentages in the table below. The first payment is due and payable on the last business day of the first calendar quarter ending after the borrowing date, quarterly payments are due on the last business day of each successive calendar quarter and all remaining outstanding principal is due and payable on the fifth anniversary of the borrowing date.

Anniversary Year	Percent of Principal Due
1	5%
2	10%
3	10%
4	35%
5	40%

Voluntary prepayments on the new term loan may be made without premium or penalty. Interest is due quarterly in arrears on any outstanding borrowings at a customary Eurodollar rate or the base rate plus applicable margin. The applicable margin ranges from 0.125% to 1.375% for base rate loans and from 1.125% to 2.375% for Eurodollar loans, and is based on the company s leverage ratio. Interest on base rate loans is payable quarterly in arrears on the last business day of each calendar quarter. Interest on Eurodollar loans is payable in arrears at the end of the interest period and every three months in the case of interest periods in excess of three months. The company paid financing costs of $1.3 million in connection with the new term loan, which are being amortized over the life of the new term loan. A commitment fee of 20 basis points on the daily undrawn portion of the lenders commitments will commence on May 1, 2013 and continue to the earlier of the borrowing date or until the commitment is terminated. The commitment fee is payable on the last day of each calendar quarter occurring after May 1, 2013 and before the borrowing date, with the final payment due on the borrowing date. The commitment terminates on September 30, 2013. The new term loan is also subject to customary restrictive covenants, including certain limitations on liens and significant acquisitions and financial covenants regarding minimum interest coverage ratio and maximum leverage ratio.

Senior Notes. On April 3, 2012, the company issued $400 million of the notes. The company will pay semiannual interest on the notes on each April 1 and October 1, beginning on October 1, 2012, and the notes will mature on April 1, 2022. On any date prior to January 1, 2022, the company may redeem some or all of the notes at a price equal to the greater of (1) 100% of the principal amount of the notes redeemed and (2) a make-whole amount plus, in each case, accrued and unpaid interest. The make-whole amount is equal to the sum of the present values of the remaining scheduled payments of principal thereof (not including any interest accrued thereon to, but not including, the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the treasury rate (as defined in the agreement), plus 35 basis points, plus in each case, unpaid interest accrued thereon to, but not including, the date of redemption. At any time on or after January 1, 2022, the company may redeem some or all of the notes at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest. If the company experiences a change of control triggering event (which involves a change of control of the company and related rating of the notes below investment grade), it is required to offer to purchase the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest thereon unless the company exercised its option to redeem the notes in whole. The notes are also subject to customary restrictive covenants, including certain limitations on liens and sale and leaseback transactions.

The face value of the notes is $400.0 million and the current discount on the notes is $0.9 million. The company paid issuance costs (including underwriting fees and legal fees) for issuing the senior notes of $3.9 million. The issuance costs and the debt discount are being amortized to interest expense over the term of the senior notes. As of April 20, 2013 and December 29, 2012 the company was in compliance with the restrictive covenants under the notes.

Credit Facility. On April 5, 2013, the company amended its senior unsecured credit facility (the credit facility) to provide for less restrictive leverage ratios and certain more favorable covenant terms, to update the existing agreement to address changes in law, and to include applicable conforming changes in light of the new term loan. We previously amended the credit facility on November 16, 2012 and on May 20, 2011. The credit facility is a five-year, $500.0 million senior unsecured revolving loan facility. The November 16, 2012 amendment extended the term through November 16, 2017 and included modest improvements in drawn and undrawn pricing. The credit facility contains a provision that permits Flowers to request up to $200 million in additional revolving commitments, for a total of up to $700 million, subject to the satisfaction of certain conditions. Proceeds from the credit facility may be used for working capital and general corporate purposes, including capital expenditures, acquisition financing, refinancing of indebtedness, dividends and share repurchases. The credit facility includes certain customary restrictions, which, among other things, require maintenance of financial covenants and limit encumbrance of assets and creation of indebtedness. Restrictive financial covenants include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. The company believes that, given its current cash position, its cash flow from operating activities and its available credit capacity, it can comply with the current terms of the amended credit facility and can meet presently foreseeable financial requirements. As of April 20, 2013 and December 29, 2012, the company was in compliance with all restrictive financial covenants under the credit facility.

Interest is due quarterly in arrears on any outstanding borrowings at a customary Eurodollar rate or the base rate plus applicable margin. The underlying rate is defined as rates offered in the interbank Eurodollar market, or the higher of the prime lending rate or the federal funds rate plus 0.40%, with a floor rate defined by the one-month interbank Eurodollar market rate plus 1.00%. The applicable margin ranges from 0.025% to 1.025% for base rate loans and from 1.025% to 2.025% for Eurodollar loans. In addition, a facility fee ranging from 0.10% to 0.35% is due quarterly on all commitments under the credit facility. Both the interest margin and the facility fee are based on the company s leverage ratio. The company paid additional financing costs of $0.6 million in connection with the November 16, 2012 amendment of the credit facility, which, in addition to the remaining balance of the original $1.6 million in financing costs, is being amortized over the life of the credit facility.

There were $176.7 million and $110.5 million in outstanding borrowings under the credit facility at April 20, 2013 and December 29, 2012, respectively. The highest outstanding daily balance during 2013 was $209.0 million and the low amount outstanding balance was $87.0 million. Amounts outstanding under the credit facility vary daily. Changes in the gross borrowings and repayments can be caused by cash flow activity from operations, capital expenditures, acquisitions, dividends, share repurchases, and tax payments, as well as derivative transactions which are part of the company s overall risk management strategy as discussed in Note 7, *Derivative Financial Instruments*. For the sixteen weeks ended April 20, 2013 the company borrowed $595.2 million in revolving borrowings under the credit facility and repaid $529.0 million in revolving borrowings. The amount available under the credit facility is reduced by $15.6 million for letters of credit. On April 20, 2013, the company had $307.7 million available under its credit facility for working capital and general corporate purposes.

Term Loan. On April 5, 2013, the company amended its credit agreement dated August 1, 2008 (the amended term loan), to conform the terms to the new term loan. The amended term loan provides for an amortizing $150.0 million of borrowings through the maturity date of August 1, 2013. Principal payments are due quarterly under the amended term loan beginning on December 31, 2008 at an annual amortization of 10% of the principal balance for each of the first two years, 15% during the third year, 20% during the fourth year, and 45% during the fifth year. The amended term loan includes certain customary restrictions, which, among other things, require maintenance of financial covenants and limit encumbrance of assets and creation of indebtedness. Restrictive financial covenants include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. The company believes that, given its current cash position, its cash flow from operating activities and its available credit capacity, it can comply with the current terms of the amended term loan and meet the financial requirements until the maturity date. As of April 20, 2013 and December 29, 2012, the company was in compliance with all restrictive financial covenants under the amended term loan. As of April 20, 2013 and December 29, 2012, the amounts outstanding under the amended term loan were $33.8 million and $67.5 million, respectively.

Interest on the amended term loan is due quarterly in arrears on outstanding borrowings at a customary Eurodollar rate or the base rate plus applicable margin. The underlying rate is defined as the rate offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranges from 0.0% to 1.375% for base rate loans and from 0.875% to 2.375% for Eurodollar loans and is based on the company s leverage ratio. The company paid additional financing costs of $0.1 million in connection with a prior amendment of the amended term loan on May 20, 2011, which, in addition to the remaining balance of the original $0.8 million in financing costs, is being amortized over the remaining life of the term loan.

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

9. VARIABLE INTEREST ENTITY

The company maintains a transportation agreement with an entity that transports a significant portion of the company s fresh bakery products from the company s production facilities to outlying distribution centers. The company represents a significant portion of the entity s revenue. This entity qualifies as a variable interest entity (VIE).

The company has concluded that certain of the trucks and trailers the VIE uses for distributing our products from the manufacturing facilities to the distribution centers qualify as right to use leases. As of April 20, 2013 and December 29, 2012, there was $9.3 million and $10.0 million, respectively, in net property, plant and equipment and capital lease obligations associated with the right to use leases.

The company uses independent distributors (IDs) to distribute our products in the DSD segment. Certain of these IDs are organized as incorporated entities and meet the qualification as VIEs. The IDs qualify as VIEs primarily because the company finances the routes, which creates variability to the company from various economic and pecuniary benefits. However, the company is not considered to be the primary beneficiary of the VIEs because the company does not (i) have the ability to direct the significant activities of the VIEs that would affect their ability to operate their respective distributor territories and (ii) provide any implicit or explicit guarantees or other financial support to the VIEs, other than the financing described above, for specific return or performance benchmarks. The company s maximum exposure related to the distributor route notes receivable of these VIEs is less than 10% of the total distributor route notes receivable for the consolidated company. The independent distributors who deliver our products that are formed as sole proprietorships are excluded from this analysis.

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10. LITIGATION

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

On July 23, 2008, a wholly-owned subsidiary of the company filed a lawsuit against Hostess in the United States District Court for the Northern District of Georgia. The complaint alleges that Hostess is infringing upon Flowers Foods *Nature s Own* trademarks by using or intending to use the *Nature s Pride* trademark. Flowers Foods asserts that Hostess s sale or intended sale of baked goods under the *Nature s Pride* trademark is likely to cause confusion with, and likely to dilute the distinctiveness of, the *Nature s Own* mark and constitutes unfair competition and deceptive trade practices. Flowers Foods is seeking actual damages, an accounting of Hostess s profits from its sales of *Nature s Pride* products, and injunctive relief. Flowers Foods sought summary judgment for its claims, which was denied by the court. On January 11, 2012, Hostess filed a voluntary petition for relief in the United States Bankruptcy Court for the Southern District of New York under Chapter 11, Title 11, United States Code. The bankruptcy filing automatically stayed the trademark lawsuit. The asset purchase agreements that Flowers Foods entered into with Hostess on January 11, 2013, discussed in Note 1, *Basis of Presentation*, include the transfer of the ownership of the *Nature s Pride* brand to Flowers Foods and a settlement and release agreement among the parties. In the event that the transaction is not ultimately approved or is otherwise terminated, Flowers Foods rights with respect to the current litigation will be preserved.

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

11. EARNINGS PER SHARE

The following is a reconciliation of net income and weighted average shares for calculating basic and diluted earnings per common share for the sixteen weeks ended April 20, 2013 and April 21, 2012 (amounts in thousands, except per share data):

	For the Sixteen Weeks Ended	
	April 20, 2013	**April 21, 2012**
Net income	$ 113,275	$ 37,943
Basic Earnings Per Common Share:		
Basic weighted average shares outstanding for common stock	138,111	135,496
Basic earnings per common share	$ 0.82	$ 0.28
Diluted Earnings Per Common Share:		
Basic weighted average shares outstanding for common stock	138,111	135,496
Add: Shares of common stock assumed issued upon exercise of stock options, vesting of performance-contingent restricted stock, and deferred stock	2,499	1,686
Diluted weighted average shares outstanding for common stock	140,610	137,182
Diluted earnings per common share	$ 0.81	$ 0.28

There were no anti-dilutive shares outstanding at April 20, 2013 or April 21, 2012.

12. STOCK BASED COMPENSATION

Flowers Foods 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009 (EPIP), authorizes the compensation committee of the Board of Directors to make awards of options to purchase our common stock, restricted stock, performance stock and units and deferred stock. The company s officers, key employees and non-employee directors (whose grants are generally approved by the full Board of Directors) are eligible to receive awards under the EPIP. The aggregate number of shares that may be issued or transferred under the EPIP is 27,937,500 shares. Over the life of the EPIP, the company has only issued options, restricted stock and deferred stock. The following is a summary of stock options, restricted stock, and deferred stock outstanding under the EPIP. Information relating to the company s stock appreciation rights which are not issued under the EPIP is also disclosed below.

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Stock Options

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

Grant date	**2/10/2011**
Shares granted	2,142
Exercise price($)	16.31
Vesting date	2/10/2014
Fair value per share($)	3.47
Dividend yield(%)(1)	3.00
Expected volatility(%)(2)	29.20
Risk-free interest rate(%)(3)	2.44
Expected option life (years)(4)	5.00
Outstanding at April 20, 2013	2,095

(1) Dividend yield estimated yield based on the historical dividend payment for the four most recent dividend payments prior to the grant date.
(2) Expected volatility based on historical volatility over the expected term using daily stock prices.
(3) Risk-free interest rate United States Treasury Constant Maturity rates as of the grant date over the expected term.
(4) Expected option life The 2011 grant assumptions are based on the simplified formula determined in accordance with Staff Accounting Bulletin No. 110. The company does not have sufficient historical exercise behavior data to reasonably estimate the expected option life.

The stock option activity for the sixteen weeks ended April 20, 2013 pursuant to the EPIP is set forth below (amounts in thousands, except price data):

	Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value**
Outstanding at December 29, 2012	6,360	$ 16.08		
Granted		$		
Exercised	(9)	$ 16.20		
Forfeited	(9)	$ 16.48		
Outstanding at April 20, 2013	6,342	$ 16.08	3.44	$ 102,377
Exercisable at April 20, 2013	4,253	$ 15.96	2.76	$ 69,071

As of April 20, 2013, there was $1.3 million of total unrecognized compensation expense related to unvested stock options. This expense is expected to be recognized over a weighted-average period of 0.8 years.

The cash received, the windfall tax benefit, and intrinsic value from stock option exercises for the sixteen weeks ended April 20, 2013 and April 21, 2012 were as follows (amounts in thousands):

	April 20, 2013	**April 21, 2012**
Cash received from option exercises	$ 146	$ 233
Cash tax windfall, net	$ 29	$ 23

Intrinsic value of stock options exercised	$ 109	$ 124

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

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Performance-Contingent Restricted Stock Awards

Performance-Contingent Total Shareholder Return Shares (TSR Shares)

Beginning in 2012, certain key employees have been granted performance-contingent restricted stock in the form of TSR Shares. The awards generally vest approximately two years from the date of grant (after the filing of the company s Annual Report on Form 10-K), and the shares become non-forfeitable if, and to the extent that on that date, the vesting conditions are satisfied. As a result of the delay in the grant of the 2012 awards the 2012 awards vest approximately 17 months from the date of grant. The 2013 awards vest two years from the date of grant. The total shareholder return (TSR) is the percent change in the company s stock price over the measurement period plus the dividends paid to shareholders. Once the TSR is determined for the company (Company TSR), it is compared to the TSR of our food company peers (Peer Group TSR). The Company TSR compared to the Peer Group TSR will determine the payout as set forth below:

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

The TSR shares vest immediately if the grantee dies or becomes disabled. However, if the grantee retires at age 65 (or age 55 with at least 10 years of service with the company) or later on the normal vesting date, the grantee will receive a pro-rated number of shares based upon the retirement date and measured at the actual performance for the entire performance period. In addition, if the company undergoes a change in control, the TSR shares will immediately vest at the target level, provided that if 12 months of the performance period have been completed, vesting will be determined based on Company TSR as of the date of the change in control without application of four-quarter averaging. During the vesting period, the grantee is treated as a normal shareholder with respect to voting rights. Dividends declared during the vesting period will accrue and will be paid at vesting for the shares that ultimately vest. The fair value estimate was determined using a *Monte Carlo* simulation model, which utilizes multiple input variables to determine the probability of the company achieving the market condition discussed above. Inputs into the model included the following for the company and comparator companies: (i) total stockholder return from the beginning of the performance cycle through the measurement date; (ii) volatility; (iii) risk-free interest rates; and (iv) the correlation of the comparator companies total stockholder return. The inputs are based on historical capital market data.

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

Grant date	1/1/13	7/16/2012
Shares granted	276.1	137.5
Vesting date		