

FLOWERS FOODS INC
Form 10-Q
May 19, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended April 23, 2011

OR

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

For the transition period from _____ to _____

Commission file number 1-16247

FLOWERS FOODS, INC.

(Exact name of registrant as specified in its charter)

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 No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

**(Do not check if a smaller reporting
company)**

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

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

TITLE OF EACH CLASS	OUTSTANDING AT MAY 13, 2011
Common Stock, \$.01 par value	90,248,792

**FLOWERS FOODS, INC.
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Forward-Looking Statements

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

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

- unexpected changes in any of the following: (i) general economic and business conditions; (ii) the competitive setting in which we operate, including, advertising or promotional strategies by us or our competitors, as well as changes in consumer demand; (iii) interest rates and other terms available to us on our borrowings; (iv) energy and raw materials costs and availability and hedging counter-party risks; (v) relationships with our employees, independent distributors and third party service providers; and (vi) laws and regulations (including environmental and health-related issues), accounting standards or tax rates in the markets in which we operate;
- the loss or financial instability of any significant customer(s);
- our ability to execute our business strategy, which may involve integration of recent acquisitions or the acquisition or disposition of assets at presently targeted values;
- our ability to operate existing, and any new, manufacturing lines according to schedule;
- the level of success we achieve in developing and introducing new products and entering new markets;
- changes in consumer behavior, trends and preferences, including health and whole grain trends, and the movement toward more inexpensive store-branded products;
- our ability to implement new technology as required;
- the credit and business risks associated with our independent distributors and customers which operate in the highly competitive retail food and foodservice industries, including the amount of consolidation in these industries;
- changes in pricing, customer and consumer reaction to pricing actions, and the pricing environment among competitors within the industry;
- consolidation within the baking industry;
- any business disruptions due to political instability, armed hostilities, incidents of terrorism, natural disasters or the responses to or repercussions from any of these or similar events or conditions and our ability to insure against such events; and
- regulation and legislation related to climate change that could affect our ability to procure our commodity needs or that necessitate additional unplanned capital expenditures.

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

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

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FLOWERS FOODS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands except share data)
(Unaudited)

	APRIL 23, 2011	JANUARY 1, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,667	\$ 6,755
Accounts and notes receivable, net of allowances of \$535 and \$522, respectively	176,776	166,281
Inventories, net:		
Raw materials	21,788	20,879
Packaging materials	12,506	12,125
Finished goods	32,309	27,570
	66,603	60,574
Spare parts and supplies	36,945	37,085
Deferred taxes	4,918	1,095
Other	35,325	41,924
Total current assets	329,234	313,714
Property, Plant and Equipment, net of accumulated depreciation of \$699,862 and \$679,561, respectively	600,313	604,693
Notes Receivable	92,340	92,860
Assets Held for Sale – Distributor Routes	12,349	11,924
Other Assets	6,198	5,113
Goodwill	200,153	200,153
Other Intangible Assets, net	95,188	97,032
Total assets	\$ 1,335,775	\$ 1,325,489
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital leases	\$ 29,097	\$ 28,432
Accounts payable	121,931	102,068
Other accrued liabilities	109,392	112,272

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Total current liabilities	260,420	242,772
Long-Term Debt and Capital Leases	90,606	98,870
Other Liabilities:		
Post-retirement/post-employment obligations	74,643	76,086
Deferred taxes	64,811	66,680
Other	47,091	45,291
Total other liabilities	186,545	188,057
Flowers Foods, Inc. Stockholders' Equity:		
Preferred stock \$100 par value, 100,000 authorized and none issued		
Preferred stock \$.01 par value, 900,000 authorized and none issued		
Common stock \$.01 par value, 500,000,000 authorized shares, 101,659,924 shares and 101,659,924 shares issued, respectively	1,017	1,017
Treasury stock 11,413,083 shares and 11,011,494 shares, respectively	(226,931)	(214,683)
Capital in excess of par value	535,400	539,476
Retained earnings	526,772	503,689
Accumulated other comprehensive loss	(38,054)	(33,709)
Total stockholders' equity	798,204	795,790
Total liabilities and stockholders' equity	\$ 1,335,775	\$ 1,325,489

(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 23, 2011	APRIL 24, 2010
Sales	\$ 801,825	\$ 795,026
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)	412,258	414,798
Selling, distribution and administrative expenses	300,057	292,551
Depreciation and amortization	27,992	25,637
Income from operations	61,518	62,040
Interest expense	(2,149)	(2,784)
Interest income	3,911	3,915
Income before income taxes	63,280	63,171
Income tax expense	22,119	22,484
Net income	\$ 41,161	\$ 40,687
Net Income Per Common Share:		
Basic:		
Net income per common share	\$ 0.46	\$ 0.44
Weighted average shares outstanding	90,214	91,517
Diluted:		
Net income per common share	\$ 0.45	\$ 0.44
Weighted average shares outstanding	90,987	92,204
Cash dividends paid per common share	\$ 0.200	\$ 0.175

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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FLOWERS FOODS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME
(Amounts in thousands, except share data)
(Unaudited)

	Comprehensive Income (Loss)	Common Stock Number of shares issued	Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Number of shares	Cost	Total
Balances at January 1, 2011		101,659,924	\$ 1,017	\$ 539,476	\$ 503,689	\$ (33,709)	(11,011,494)	\$ (214,683)	\$ 795,790
Net income	\$ 41,161				41,161				41,161
Derivative instruments, net of tax	(4,803)					(4,803)			(4,803)
Amortization of prior service credits, net of tax	(49)					(49)			(49)
Amortization of actuarial loss, net of tax	507					507			507
Comprehensive income	\$ 36,816								
Exercise of stock options				(802)			91,000	1,809	1,007
Deferred stock issuance				(551)			27,965	551	
Issuance of restricted stock award				(4,213)			216,050	4,213	
Amortization of share-based payment compensation				5,415					5,415
Tax benefits related to share based payment awards				283					283
Performance share awards forfeitures and cancellations				860			(44,055)	(860)	

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Stock repurchases						(695,403)	(18,029)	(18,029)
Issuance of deferred compensation		(68)				2,854	68	-
Contingent acquisition consideration		(5,000)						(5,000)
Dividends paid \$0.200 per common share						(18,078)		(18,078)
Balances at April 23, 2011	101,659,924	\$ 1,017	\$ 535,400	\$ 526,772	\$ (38,054)	(11,413,083)	\$ (226,931)	\$ 798,204

(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 23, 2011	APRIL 24, 2010
CASH FLOWS PROVIDED BY (DISBURSED FOR) OPERATING ACTIVITIES:		
Net income	\$ 41,161	\$ 40,687
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	5,929	4,753
(Gain) loss reclassified from accumulated other comprehensive income to net income	(22,919)	11,525
Depreciation and amortization	27,992	25,637
Deferred income taxes	(3,268)	(476)
Provision for inventory obsolescence	410	358
Allowances for accounts receivable	270	564
Pension and postretirement plans expense	194	599
Other	(644)	(61)
Pension contributions	(580)	(187)
Changes in operating assets and liabilities:		
Accounts and notes receivable, net	(10,597)	(2,468)
Inventories, net	(6,439)	(3,350)
Other assets	3,567	3,557
Accounts payable	19,863	7,152
Other accrued liabilities	17,615	(5,741)
NET CASH PROVIDED BY OPERATING ACTIVITIES	72,554	82,549
CASH FLOWS PROVIDED BY (DISBURSED FOR) INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(22,058)	(29,125)
Proceeds from sale of property, plant and equipment	732	335
Issuance of notes receivable	(3,477)	(1,880)
Proceeds from notes receivable	3,829	3,806
Contingent acquisition consideration payments	(5,000)	
Deconsolidation of variable interest entity		(8,804)
NET CASH DISBURSED FOR INVESTING ACTIVITIES	(25,974)	(35,668)
CASH FLOWS PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES:		
Dividends paid	(18,078)	(16,020)
Exercise of stock options	1,007	2,531
Income tax benefit related to stock awards	577	191

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Stock repurchases	(18,029)	(2,115)
Change in book overdraft	(2,604)	(2,698)
Proceeds from debt borrowings	93,500	213,000
Debt and capital lease obligation payments	(101,041)	(252,297)
NET CASH DISBURSED FOR FINANCING ACTIVITIES	(44,668)	(57,408)
Net increase (decrease) in cash and cash equivalents	1,912	(10,527)
Cash and cash equivalents at beginning of period	6,755	18,948
Cash and cash equivalents at end of period	\$ 8,667	\$ 8,421

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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INTERIM FINANCIAL STATEMENTS The accompanying unaudited condensed consolidated financial statements of Flowers Foods, Inc. (the company) have been prepared by the company s management in accordance with generally accepted accounting principles (GAAP) for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, the unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of only normal recurring accruals) 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 23, 2011 and April 24, 2010 are not necessarily indicative of the results to be expected for a full year. The balance sheet at January 1, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the company s Annual Report on Form 10-K for the fiscal year ended January 1, 2011.

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

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

SEGMENTS The company consists of two business segments: direct-store-delivery (DSD) and warehouse delivery. The DSD segment focuses on producing and marketing bakery products to U.S. customers in the Southeast, Mid-Atlantic, and Southwest as well as select markets in California and Nevada primarily through its DSD system. The warehouse delivery segment produces snack cakes for sale to retail, vending and co-pack customers as well as frozen bread, rolls and buns for sale to retail and foodservice customers primarily through warehouse distribution.

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 23, 2011 and April 24, 2010. No other customer accounted for 10% or more of the company s sales.

	FOR THE SIXTEEN WEEKS ENDED	
	APRIL 23, 2011	APRIL 24, 2010
	(Percent of Sales)	
DSD	17.9%	18.3%
Warehouse delivery	4.0	3.0
Total	21.9%	21.3%

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

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The company's total comprehensive income presently consists of net income, adjustments for our derivative financial instruments accounted for as cash flow hedges, and various pension and other postretirement benefit related items. Total comprehensive income, determined as net income adjusted by other comprehensive income, was \$36.8 million and \$43.2 million for the sixteen weeks ended April 23, 2011 and April 24, 2010, respectively.

During the sixteen weeks ended April 23, 2011, changes to accumulated other comprehensive loss, net of income tax, were as follows (amounts in thousands):

	2011
Accumulated other comprehensive loss, January 1, 2011	\$ (33,709)
Derivative transactions:	
Net deferred gain on closed contracts, net of income tax of \$3,815	6,093
Reclassified to earnings, net of income tax of \$(8,323)	(13,295)
Effective portion of change in fair value of hedging instruments, net of income tax of \$1,502	2,399
Amortization of prior service credits, net of income tax of \$(30)	(49)
Amortization of actuarial loss, net of income tax of \$317	507
Accumulated other comprehensive loss, April 23, 2011	\$ (38,054)

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

3. GOODWILL AND OTHER INTANGIBLES

There were no changes in the carrying amount of goodwill for the sixteen weeks ended April 23, 2011. The balance as of April 23, 2011 is as follows (amounts in thousands):

DSD	\$ 193,052
Warehouse delivery	7,101
Total	\$ 200,153

As of April 23, 2011 and January 1, 2011, the company had the following amounts related to amortizable intangible assets (amounts in thousands):

Asset	April 23, 2011			January 1, 2011		
	Cost	Amortization	Net Value	Cost	Amortization	Net Value
Trademarks	\$ 35,268	\$ 5,161	\$ 30,107	\$ 35,268	\$ 4,687	\$ 30,581
Customer relationships	75,434	14,869	60,565	75,434	13,675	61,759
Non-compete agreements	1,874	1,367	507	1,874	1,353	521
Distributor relationships	2,600	467	2,133	2,600	413	2,187
Supply agreement	1,050	674	376	1,050	566	484