

FLOWERS FOODS INC  
Form 10-K  
March 03, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

**(Mark One)**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended January 2, 2010
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from            to

**Commission file number 1-16247**

**FLOWERS FOODS, INC.**

(Exact name of registrant as specified in its charter)

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

**58-2582379**  
*(I.R.S. Employer  
Identification No.)*

**1919 Flowers Circle**  
**Thomasville, Georgia**  
*(Address of principal executive offices)*

**31757**  
*(Zip Code)*

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

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, \$0.01 par value, together with Preferred Share Purchase Rights	New York Stock Exchange

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

**None**

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act of 1934. Yes  No

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Based on the closing sales price on the New York Stock Exchange on July 18, 2009 the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was \$1,968,402,127.

On February 26, 2010, the number of shares outstanding of the registrant's Common Stock, \$0.01 par value, was 91,718,522.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the registrant's Proxy Statement for the 2010 Annual Meeting of Shareholders to be held June 4, 2010, which will be filed with the Securities and Exchange Commission on or prior to May 2, 2010, have been incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

**FORM 10-K REPORT**

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**Forward-Looking Statements**

Statements contained in this filing and certain other written or oral statements made from time to time by 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, show, to, is expected to or will continue, or the negative of these terms or other comparable terminology. These forward-looking statements are based upon assumptions we believe are reasonable.

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

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

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

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

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

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

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

our ability to implement new technology as required;

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

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

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 this Form 10-K for additional information regarding factors that could affect the company's results of operations, financial condition and liquidity.

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

**Table of Contents****PART I****Item 1. Business****Corporate Information**

The company's predecessor was founded in 1919 when two brothers, William Howard and Joseph Hampton Flowers, opened Flowers Baking Company in Thomasville, Ga. In 1968, Flowers Baking Company went public, became Flowers Industries, and began trading over-the-counter stock. Less than a year later, Flowers listed on the American Stock Exchange. In 1982, the company listed on the New York Stock Exchange under the symbol FLO. In the mid-1990s, Flowers Industries transformed itself from a strong regional baker into a national baked foods company with the acquisition of Keebler Foods Company, one of the largest cookie and cracker companies in the United States, and Mrs. Smith's, one of the country's top-selling frozen pie brands. By 1999, Flowers Industries had become a \$4.2 billion national baked foods company with three business units—Flowers Bakeries, a super-regional fresh baked foods company; Mrs. Smith's Bakeries, a national frozen baked foods company; and Keebler. In March 2001, Flowers sold its investment in Keebler to the Kellogg Company, and the remaining business units—Flowers Bakeries and Mrs. Smith's—were spun off into a new company called Flowers Foods, which was incorporated in Georgia in 2000. In April 2003, Flowers sold the Mrs. Smith's frozen dessert business to The Schwan Food Company.

As used herein, references to we, our, us, the company or Flowers Foods include the historical operating results activities of the business operations that comprised Flowers Foods as of January 2, 2010.

**The Company**

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

We have a major presence in each of the product categories in which we compete. Our brands have a leading share of fresh packaged branded sales measured in both dollars and units in the major southern metropolitan markets we serve. Our major branded products include, among others, the following:

<b>DSD Brands</b>	<b>Regional Franchised Brands</b>	<b>Warehouse Delivery Brands</b>
<i>Flowers</i>	<i>Sunbeam</i>	<i>Mrs. Freshley's</i>
<i>Nature's Own</i>	<i>Roman Meal</i>	<i>Snack Away</i>
<i>Whitewheat</i>	<i>Bunny</i>	<i>European Bakers</i>
<i>Cobblestone Mill</i>	<i>Holsum</i>	<i>Broad Street Bakery</i>
<i>BlueBird</i>	<i>Aunt Hattie's</i>	<i>Leo's</i>
<i>ButterKrust</i>	<i>Country Hearth</i>	<i>Juarez</i>
<i>Dandee</i>		
<i>Mary Jane</i>		
<i>Evangeline Maid</i>		
<i>Ideal</i>		



*Captain John Derst*

Our strategy is to be one of the nation's leading producers and marketers of bakery products, available to distributors and customers through multiple channels of distribution, including traditional supermarkets and their in-store deli/bakeries, foodservice distributors, convenience stores, mass merchandisers, club stores, wholesalers, restaurants, fast food outlets, schools, hospitals and vending machines. Our strategy focuses on developing products that are responsive to ever changing consumer needs and preferences through product innovation and leveraging our well established brands. To assist in accomplishing our strategy, we have invested capital to automate and expand

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our production and distribution capabilities as well as increase our efficiency. We believe these investments allow us to produce and distribute high quality products at the lowest cost.

In our DSD segment, we focus 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. We market a variety of breads and rolls under the brands outlined in the table above. Over time, through product innovation and product diversity, we have been able to strengthen and establish our brands in the markets we serve. We have devoted significant resources to automate our production facilities, improve our distribution capabilities and enhance our information technology. Historically, we have grown through acquisitions of bakery operations that are generally within or contiguous to our existing region and which can be served with our extensive DSD system. However, we also have grown by expanding our DSD service 100 to 150 miles into markets that adjoin the current territories we supply, and we intend to continue this growth initiative in the near future. Our DSD system utilizes 3,530 independent distributors who collectively own 3,727 distributor territories with the rights to sell certain brands of our bakery products within their respective territories. Our strategy is to continue enabling these independent distributors to better serve their customers, principally by using technology to enhance the productivity and efficiency of our production facilities and our DSD system.

In our warehouse delivery segment, we produce 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. Our warehouse products are distributed nationally through mass merchandisers and brokers, as well as through warehouse and vending distributors. Additionally, we distribute to retail outlets to U.S. customers in the Southeast, Mid-Atlantic, and Southwest as well as select markets in California and Nevada through our DSD system.

## **Industry Overview**

The United States food industry is comprised of a number of distinct product lines and distribution channels for bakery products. Although supermarket bakery aisle purchases remain the largest channel for consumers' bakery foods purchases, non-supermarket channels, such as mass merchandisers, convenience stores, club stores, restaurants, institutions and other convenience channels also are outlets where consumers purchase bakery items. Non-supermarket channels of distribution are growing in importance throughout the food industry.

### *Fresh Bakery Products*

In addition to Flowers Foods, several large baking and diversified food companies market bakery products in the United States. Competitors in this category include Grupo Bimbo S.A. de C.V., Hostess Brands, Inc. (formerly Interstate Bakeries Corporation), Sara Lee Corporation, McKee Foods Corporation (*Little Debbie*) and Campbell Soup Company (*Pepperidge Farm*). There are also a number of smaller regional companies. Historically, the larger companies have enjoyed several competitive advantages over smaller operations due principally to greater brand awareness and economies of scale in areas such as purchasing, distribution, production, information technology, advertising and marketing. However, size alone is not sufficient to ensure success in our industry.

Consolidation has been a significant trend in the baking industry over the last several years. It continues to be driven by factors such as capital constraints on smaller companies that limit their ability to avoid technological obsolescence and to increase productivity or to develop new products, generational changes at family-owned businesses and the need to serve the consolidated retail customers and the foodservice channel. We believe that the consolidation trend in the baking, food retailing and foodservice industries will continue to present opportunities for strategic acquisitions that complement our existing businesses and extend our super-regional presence.

### *Frozen Bakery Products*

Primary competitors in the frozen breads and rolls market include Alpha Baking Co., Inc., Rotella's Italian Bakery, United States Bakery (*Franz*), Turano Baking Company and All Round Foods, Inc.

According to the National Restaurant Association (NRA), restaurant industry sales are expected to reach \$580 billion in 2010. The NRA projects that while overall restaurant industry sales will increase in current dollars

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by 2.5% over 2009 figures, they are expected to be flat when inflation-adjusted. The quickservice restaurant segment is expected to fare slightly better than the fullservice restaurant segment as diners focus on values and specials. Quickservice restaurants are projected to post sales gains of 3% over 2009 while sales at fullservice restaurants are projected to increase 1.2% over 2009.

## **Strategy**

Our mission is to drive sustainable growth that over time enhances value for our shareholders, team members, associates, distributors, customers, consumers, and communities. Our strategies are based on the production, distribution and marketing requirements of the distribution channels we serve as one of the nation's leading producers and marketers of bakery products. Our operating strategies are to:

*Grow Sales.* We grow sales by introducing new products, further penetrating core markets, expanding our direct-store-delivery service to new geographic markets, serving new customers, and making bolt-on acquisitions.

*Invest Wisely.* We invest to make our bakeries the most efficient in the U.S. We will continue investing in technology, efficiency improvements, and new bakeries to maintain our advantage as one of the country's low-cost bakers.

*Bake Smart.* We offer a broad line of fresh and frozen bakery products that meet our customers' and our consumers' needs. We will continue to develop and introduce innovative new products while maintaining the quality of our core products.

*Develop Brands.* Our brands represent product quality, consistency, and delicious taste to consumers. We will maintain our brand strength and use the power of our brands to grow.

*Give Extraordinary Service.* We offer extraordinary service going beyond the call of duty to help meet customers' needs. We will expand and refine our distribution and information systems to help us respond even more quickly and efficiently to changing customer service needs, consumer preferences, and seasonal demands in the channels we serve.

*Innovate.* We constantly work to improve our business processes throughout the company to increase efficiencies, reduce costs, improve quality, and enhance customer service.

*Appreciate the Team.* We embrace diversity, foster team spirit, and encourage professional growth. We build teams that understand the importance of working together to implement our strategies. Our work environment encourages recognition and respect for team and individual achievements.

*Manage Resources.* We strive to conduct business in a manner that helps conserve natural resources and promotes a clean and healthy environment.

## **Products**

We produce fresh packaged and frozen bakery products.

### *DSD Segment*

We market our DSD fresh packaged bakery products to U.S. customers in the Southeast, Mid-Atlantic, and Southwest as well as select markets in California and Nevada. Our soft variety and premium specialty breads are marketed throughout these regions under our *Nature's Own* and *Cobblestone Mill* brands. We have developed and introduced many new products over the last several years that appeal to health-conscious consumers. Examples of new products under our *Nature's Own* brand in fiscal 2009 include:

*Nature's Own* Breakfast Breads in a variety of flavors

*Nature's Own* 100% Wheat Buns

*Nature's Own* 100% Whole Grain Bread

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We also introduced *Nature's Own* Sandwich Rounds and Thin Sliced Bagels early in fiscal 2010.

We also market regional franchised brands such as *Sunbeam*, *Roman Meal*, *Bunny*, *Holsum*, *Aunt Hattie's* and *Country Hearth*, and regional brands we own such as *ButterKrust*, *Dandee*, *Mary Jane*, *Evangeline Maid*, *Ideal* and *Captain John Derst*. *Nature's Own* is the best selling brand by volume of soft variety bread in the United States, although it is only available to approximately 50% of the population, with 2009 retail sales of approximately \$825 million. Our DSD branded retail products account for approximately 57% of the DSD segment sales.

In addition to our DSD branded products, we also produce and distribute fresh packaged bakery products under private labels for retailers. While private label products carry lower margins than our branded products, we use our private label offerings to effectively utilize production and distribution capacity and to help the independent distributors in the DSD system expand total retail shelf space.

We also utilize our DSD system to supply bakery products to quick serve restaurants, institutions and other outlets, which account for approximately 24% of DSD sales.

### *Warehouse Delivery Segment*

Our warehouse delivery segment produces and sells pastries, doughnuts and bakery snack products primarily under the *Mrs. Freshley's* brand to customers for re-sale through multiple channels of distribution, including mass merchandisers, vending and convenience stores. *Mrs. Freshley's* is a full line of bakery snacks positioned as a warehouse delivered alternative to our competitors' DSD brands such as *Hostess*, *Dolly Madison* and *Little Debbie*. *Mrs. Freshley's* products are delivered throughout the United States. We also produce pastries, doughnuts and bakery snack products for distribution by our DSD system under the *BlueBird* brand and for sale to other food companies for re-sale under their brand names. We also contract manufacture snack products under various private and branded labels for sale through the retail channel. Some of our contract manufacture customers are also our competitors.

In fiscal 2009, we introduced several new products under the *Mrs. Freshley's* and *BlueBird* brands, including banana pudding cupcakes and cinnamon coffee cakes.

We also produce and distribute a variety of frozen bread, rolls and buns for sale to foodservice customers. In addition, our frozen bread and roll products under the *European Bakers* brand are distributed for retail sale in supermarket deli-bakeries. We have the ability to provide our customers with a variety of products using both conventional and hearth baking technologies.

During fiscal 2009, we acquired Leo's Foods, Inc., a tortilla facility located in Ft. Worth, Texas (Leo's), and increased our production capacity for the foodservice and retail tortilla business.

## **Production and Distribution**

We design our production facilities and distribution systems to meet the marketing and production demands of our major product lines. Through a significant program of capital improvements and careful planning of plant locations, which, among other things, allows us to establish reciprocal baking or product transfer arrangements among our bakeries, we seek to remain a low cost producer and marketer of a full line of bakery products on a national and super-regional basis. In addition to the DSD system for our fresh baked products, we also use both owned and public warehouses and distribution centers in central locations for the distribution of certain of our warehouse delivery products.

*DSD Segment*

We operate 30 fresh packaged bakery production facilities in twelve states and one production facility that produces frozen bakery products. Throughout our history, we have devoted significant resources to automate our production facilities and improve our distribution capabilities. We believe that these investments have made us the most efficient major producer of packaged bakery products in the United States. We believe that our capital investment yields long-term benefits in the form of more consistent product quality, highly sanitary processes, and

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greater production volume at a lower cost per unit. We intend to continue investing in our production facilities and equipment to maintain high levels of efficiency.

In August 2008, a wholly owned subsidiary of the company merged with Holsum Holdings, LLC ( *Holsum* ). Holsum operates two bakeries in the Phoenix, Arizona area and serves customers in Arizona, New Mexico, southern Nevada and southern California with fresh breads and rolls under the *Holsum*, *Aunt Hattie* s, and *Roman Meal* brands. This merger allowed us to expand into new geographic markets.

In August 2008, the company acquired 100% of the outstanding shares of capital stock of the parent company of ButterKrust Bakery ( *ButterKrust* ). ButterKrust manufactures fresh breads and rolls in Lakeland, Florida and its products are available throughout Florida under the *Country Hearth*, *Rich Harvest*, and *Sunbeam* brands, as well as store brands. This acquisition increased our production capacity in the Florida market.

In November 2007, we announced plans to build a 200,000-square-foot bakery in Bardstown, Kentucky that produces products for markets in Tennessee, Kentucky, Ohio, and Indiana. The bakery opened with one production line in spring 2009. A second production line is expected to begin production in spring 2010.

Distribution of fresh packaged bakery products through the company s DSD system involves determining appropriate order levels, delivering the product from the production facility to the independent distributor for direct store delivery to the customer, stocking the product on the shelves, visiting the customer daily to ensure that inventory levels remain adequate and removing stale goods. The company also uses scan-based trading, which allows us to track and monitor sales and inventories more effectively.

We utilize a network of 3,530 independent distributors who own the rights to distribute certain brands of our fresh packaged bakery products in their geographic territories. The company has sold the majority of its territories to independent distributors under long-term financing arrangements, which are managed and serviced by the company. The system is designed to provide retail and foodservice customers with superior service because independent distributors, highly motivated by financial incentives from their route ownership, strive to increase sales by maximizing service. In turn, independent distributors have the opportunity to benefit directly from the enhanced value of their routes resulting from higher branded sales volume.

The company leases hand-held computer hardware, which contains our proprietary software, and charges independent distributors an administrative fee for its use. This fee reduces the company s selling, marketing and administrative expenses and amounted to \$2.9 million, \$2.9 million and \$2.6 million for fiscal years 2009, 2008 and 2007, respectively. Our proprietary software permits distributors to track and communicate inventory data to the production facilities and to calculate recommended order levels based on historical sales data and recent trends. These orders are electronically transmitted to the appropriate production facility on a nightly basis. This system is designed to ensure that the distributor has an adequate supply of product and the right mix of products available to meet the retail and foodservice customers immediate needs. We believe our system minimizes returns of unsold goods. In addition to the hand-held computers, we use a software system that allows us to accurately track sales, product returns and profitability by selling location, plant, day and other criteria. The system provides real-time, on-line access to sales and gross margin reports on a daily basis, allowing us to make prompt operational adjustments when appropriate. The hand-held computers are highly integrated with this software system. This system permits us to forecast sales and more fully leverage our sales data warehouse to improve our in-store product ordering by customer.

### *Warehouse Delivery Segment*

We operate eleven production facilities, of which four produce packaged bakery snack products, two produce frozen bread and rolls, two produce fresh packaged bread and rolls, two produce mixes used in the baking process and one



produces tortillas. We distribute a majority of our packaged bakery snack products from a centralized distribution facility located near our Crossville, Tennessee production facility, which allows us to achieve both production and distribution efficiencies. The production facilities are able to operate longer, more efficient production runs of a single product, a majority of which are then shipped to the centralized distribution facility. Products coming from different production facilities are then cross-docked and shipped directly to customer

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warehouses. Our frozen bread and roll products are shipped to various outside freezer facilities for distribution to our customers.

In October 2009, the company acquired Leo's Foods, Inc. in Ft. Worth, Texas. Leo's Foods was formerly a family-owned business with one tortilla facility in Ft. Worth. The company makes an extensive line of flour and corn tortillas and tortilla chips that are sold to foodservice and institutional customers nationwide under *Leo's*, *Juarez*, and customer brands. This acquisition adds production capacity for the foodservice and retail customers of flour and corn tortilla and tortilla chips.

In May 2009, the company acquired substantially all the assets of a bakery mix operation in Cedar Rapids, Iowa from General Mills, Inc. The mix plant produces bakery mixes for the company and for retail and foodservice customers. With the acquisition, the company also gained greater control over the *Country Hearth* trademark, which it licenses to various bakers in certain parts of the country.

In December 2007, we reacquired a bakery in Suwanee, Georgia from The Schwan Food Company. Flowers built the bakery in 1999 and then sold the property to Schwan in 2003 as part of the sale of the Mrs. Smith's business. Since 2003, Flowers operated the bakery under the terms of a building lease with Schwan. Reacquiring the building provides the company with operational certainty regarding future production and creates opportunities for expansion to accommodate additional volume. Flowers produces hearth-baked buns, rolls and bagels in the Suwanee bakery facility for retail and foodservice customers.

## **Customers**

Our top 10 customers in fiscal 2009 accounted for 46.0% of sales. During fiscal 2009, our largest customer, Wal-Mart/Sam's Club, represented 21.0% of the company's sales. Retail consolidation has increased the importance of our significant customers. The loss of Wal-Mart/Sam's Club or any other major customer or a material negative change in our relationship with Wal-Mart/Sam's Club or any other major customer could have a material adverse effect on our business. No other customer accounted for 10% of our sales.

Our fresh baked foods customer base includes mass merchandisers, supermarkets and other retailers, restaurants, fast-food chains, food wholesalers, institutions and vending companies. We also sell returned and surplus product through a system of thrift outlets. The company currently operates 245 such outlets, and reported sales of \$60.4 million during fiscal 2009 related to these thrift outlets. We supply numerous restaurants, institutions and foodservice companies with bakery products. We also sell packaged bakery products to wholesale distributors for ultimate sale to a wide variety of food outlets.

Our packaged bakery snack products under the *Mrs. Freshley's* brand are sold primarily to customers who distribute the product nationwide through multiple channels of distribution, including mass merchandisers, supermarkets, vending outlets and convenience stores. We also produce packaged bakery snack products for the DSD system under our *BlueBird* brand. In certain circumstances, we enter into co-packing arrangements with other food companies, some of which are competitors. Our frozen bakery products are sold to foodservice distributors, institutions, retail in-store bakeries and restaurants under our *European Bakers* brand and under private labels.

## **Marketing**

Our marketing and advertising campaigns are conducted through targeted television and radio advertising and printed media coupons. We also incorporate promotional tie-ins with other sponsors, on-package promotional offers and sweepstakes into our marketing efforts. Additionally, we focus our marketing and advertising campaigns on specific products throughout the year, such as hamburger and hotdog buns for Memorial Day, Independence Day and Labor

Day.

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### **Competition**

The United States packaged bakery category is intensely competitive and is comprised of large food companies, large independent bakeries with national distribution and smaller regional and local bakeries. Primary national competitors include Grupo Bimbo S.A. de C.V., Hostess Brands, Inc. ( Hostess )(formerly Interstate Bakeries Corporation), Sara Lee Corporation, McKee Foods Corporation (*Little Debbie*) and Campbell Soup Company (*Pepperidge Farm*). We also face competition from private label brands produced by us and our competitors. Competition is based on product availability, product quality, brand loyalty, price, effective promotions and the ability to target changing consumer preferences. Customer service, including frequent delivery and well-stocked shelves through the efforts of our independent distributors, is an increasingly important competitive factor. While we experience price pressure from time to time, primarily as a result of competitors promotional efforts, we believe that our distributor and customer relationships, which are enhanced by our information technology and the consumers brand loyalty, as well as our diversity within our region in terms of geographic markets, products and sales channels, limit the effects of such competition. We believe we have significant competitive advantages over smaller regional bakeries due to greater brand awareness and economies of scale in areas such as purchasing, distribution, production, information technology, advertising and marketing.

Competition for fresh packaged bakery snack products is based upon the ability to meet production and distribution demands of retail and vending customers at a competitive price.

Competitors for frozen bakery products include Alpha Baking Co., Inc., Rotella s Italian Bakery, United States Bakery, Turano Baking Company and All Round Foods, Inc. Competition for frozen bakery products is based primarily on product quality and consistency, product variety and the ability to consistently meet production and distribution demands at a competitive price.

### **Intellectual Property**

We own a number of trademarks and trade names, as well as certain licenses. The company also sells its products under a number of regional franchised and licensed trademarks and trade names that it does not own. These trademarks and trade names are considered to be important to our business since they have the effect of developing brand awareness and maintaining consumer loyalty. 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 *Nature s Own* trademarks by using or intending to use the *Nature s Pride* trademark. Flowers asserts that Hostess sale or intended sale of baked goods under the *Nature s Pride* trademark is likely to cause confusion with, and likely to dilute the distinctiveness of, the *Nature s Own* mark and constitutes unfair competition and deceptive trade practices. Flowers is seeking actual damages, an accounting of Hostess profits, and injunctive relief. We are not aware of any fact that would negatively impact the continued use of any of our trademarks, trade names or licenses to any material extent.

### **Raw Materials**

Our primary baking ingredients are flour, sweeteners and shortening. We also use paper products, such as corrugated cardboard and films and plastics to package our baked foods. In addition, we are dependent upon natural gas and propane as fuel for firing ovens. The independent distributors and third party shipping companies are dependent upon gasoline and diesel as fuel for distribution vehicles. In general, we maintain diversified sources for all of our baking ingredients and packaging products.

Commodities, such as our baking ingredients, periodically experience price fluctuations, and, for that reason, we continually monitor the market for these commodities. The commodities market continues to be volatile. Agricultural

commodity prices reached all time high levels during 2007 and the first half of 2008. The cost of these inputs may fluctuate widely due to government policy and regulation, weather conditions, domestic and international demand or other unforeseen circumstances. We enter into forward purchase agreements and derivative financial instruments to manage the impact of such volatility in raw materials prices. Any decrease in the availability of these agreements and instruments could increase the price of these raw materials and significantly affect our earnings.

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### **Research and Development**

We engage in research and development activities that principally involve developing new products, improving the quality of existing products and improving and automating production processes. We also develop and evaluate new processing techniques for both current and proposed product lines.

### **Regulation**

As a producer and marketer of food items, our operations are subject to regulation by various federal governmental agencies, including the Food and Drug Administration, the Department of Agriculture, the Federal Trade Commission, the Environmental Protection Agency and the Department of Commerce, as well as various state agencies, with respect to production processes, product quality, packaging, labeling, storage and distribution. Under various statutes and regulations, these agencies prescribe requirements and establish standards for quality, purity and labeling. Failure to comply with one or more regulatory requirements can result in a variety of sanctions, including monetary fines or compulsory withdrawal of products from store shelves.

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

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

The cost of compliance with such laws and regulations has not had a material adverse effect on the company's business. Our operations and products also are subject to state and local regulation through such measures as licensing of plants, enforcement by state health agencies of various state standards and inspection of facilities. We believe that we are currently in material compliance with applicable federal, state and local laws and regulations.

### **Employees**

We employ approximately 8,800 persons, approximately 800 of whom are covered by collective bargaining agreements. We believe that we have good relations with our employees.

### **Other Available Information**

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

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

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The SEC also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information about SEC registrants, including the company. You may also obtain these materials at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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

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Board Committees

Code of Business Conduct and Ethics

Flowers Foods Employee Code of Conduct

Disclosure Policy

Corporate Governance Guidelines

Stock Ownership Guidelines

Audit Committee Charter

Compensation Committee Charter

Finance Committee Charter

Nominating/Corporate Governance Committee Charter

**Item 1A. Risk Factors**

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

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

Economic conditions have deteriorated significantly throughout the United States and these difficult conditions may continue to exist for the foreseeable future. This deterioration could have a negative impact on our business. Economic uncertainty may result in increased pressure to reduce the prices for some of our products and/or limit our ability to increase or maintain prices. As such, we could experience reduced profitability, which potentially could require us to recognize impairment charges. If any of these events occur, or if the unfavorable economic conditions continue, our sales and profitability could be adversely affected.

*Increases in costs and/or shortages of raw materials, fuels and utilities could cause costs to increase.*

Commodities, such as flour, sweeteners, shortening and eggs, which are used in our bakery products, are subject to price fluctuations. Any substantial increase in the prices of raw materials may have an adverse impact on our profitability. Agricultural commodity prices reached all time high levels during 2007 and the first half of 2008.

The cost of these inputs may fluctuate widely due to government policy and regulation, weather conditions, domestic and international demand or other unforeseen circumstances. In addition, we are dependent upon natural gas and propane for firing ovens. The independent distributors and third party shipping companies we use are dependent upon gasoline and diesel as fuel for distribution vehicles. Substantial future increases in prices for, or shortages of, these fuels could have a material adverse effect on our operations and financial results. The company cannot guarantee that



it can cover these cost increases through future pricing actions. Additionally, as a result of these pricing actions consumers could move from the purchase of high margin branded products to lower margin store brands.

*Competition could adversely impact revenues and profitability.*

The United States bakery industry is highly competitive. Competition is based on product availability, product quality, price, effective promotions and the ability to target changing consumer preferences. We experience price pressure from time to time as a result of our competitors' promotional efforts. Increased competition could result in reduced sales, margins, profits and market share.

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

We have several large customers that account for a significant portion of our sales. Our top ten customers accounted for 46.0% of our sales during fiscal 2009. Our largest customer, Wal-Mart/Sam's Club, accounted for 21.0% of our sales during this period. The loss of one of our large customers could adversely affect our results of operations. These customers do not typically enter into long-term sales contracts, and make purchase decisions based on a combination of price, product quality, consumer demand and customer service performance. They may in the future use more of their shelf space, including space currently used for our products, for private label products or products of other suppliers. If our sales to one or more of these customers are reduced, this reduction may adversely affect our business.

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

As our customers, including mass merchandisers grow larger they may demand lower pricing and increased promotional programs. Meeting these demands could adversely affect our margins.

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

From time to time, our large customers may re-evaluate or refine their business practices and impose new or revised requirements upon their suppliers, including us. These business demands may relate to inventory practices, logistics or other aspects of the customer-supplier relationship. Compliance with requirements imposed by significant customers may be costly and may have an adverse effect on our results of operations. However, if we fail to meet a significant customer's demands, we could lose that customer's business, which could adversely affect our results of operations.

*Our ability to execute our business strategy could affect our business.*

We employ various operating strategies to maintain our position as one of the nation's leading producers and marketers of bakery products available to customers through multiple channels of distribution. If we are unsuccessful in implementing or executing one or more of these strategies, our business could be adversely affected.

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

Pension, health care and workers' compensation costs have been increasing and will likely continue to increase. Any substantial increase in pension, health care or workers' compensation costs may have an adverse impact on our profitability. The company records pension costs and the liabilities related to its benefit plans based on actuarial valuations, which include key assumptions determined by management. Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by various factors, such as changes in the number of plan participants, changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plan and other factors. There have been no new participants in the company's defined benefit plan since December 31, 1998. Effective December 31, 2005, the company froze benefits in its primary defined benefit pension plan. As a result of the downturn in equity markets during 2008 and the first quarter of 2009, the assets of the company's pension plans decreased significantly and, as a result of this decrease, pension costs increased in 2009.

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

The company has trustee, noncontributory defined pension plans covering certain employees maintained under the U.S. Employee Retirement Income Security Act of 1974 (ERISA). The funding obligations for our pension plans are impacted by the performance of the financial markets, including the performance of our common stock, which

comprises approximately 12.0% of all the pension plan assets as of January 2, 2010.

If the financial markets do not provide the long-term returns that are expected, the likelihood of the company being required to make contributions will increase. The equity markets can be, and recently have been, very volatile, and therefore our estimate of future contribution requirements can change dramatically in relatively short periods of

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time. Similarly, changes in interest rates can impact our contribution requirements. In a low interest rate environment, the likelihood of required contributions in the future increases.

*A disruption in the operation of our DSD system could negatively affect our results of operations and financial condition.*

We believe that our DSD distribution system is a significant competitive advantage. A material negative change in our relations with the independent distributors, an adverse ruling by regulatory or governmental bodies regarding our independent distributorship program or an adverse judgment against the company for actions taken by the independent distributors could materially affect our results of operation and financial condition.

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

We rely on the success of our well-recognized brand names. We intend to maintain our strong brand recognition by continuing to devote resources to advertising, marketing and other brand building efforts. If we are not able to successfully maintain our brand recognition, our revenues and profitability could be adversely affected.

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

Our success depends in part on our ability to respond to current market trends and to anticipate the tastes and dietary habits of consumers. Consumer preferences change, and our failure to anticipate, identify or react to these changes could result in reduced demand for our products, which could in turn cause our operating results to suffer.

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

We may be required to recall certain of our products should they be mislabeled, contaminated or damaged. We also may become involved in lawsuits and legal proceedings if it is alleged that the consumption of any of our products causes injury, illness or death. A product recall or an adverse result in any such litigation could have a material adverse effect on our operating and financial results. We also could be adversely affected if consumers in our principal markets lose confidence in the safety and quality of our products.

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

As a producer and marketer of food items, we are subject to regulation by various federal, state and local government entities and agencies with respect to production processes, product quality, packaging, labeling, storage and distribution. Failure to comply with, or violations of, the regulatory requirements of one or more of these agencies can result in a variety of sanctions, including monetary fines or compulsory withdrawal of products from store shelves. In addition, future regulation by these agencies, the military action in Iraq and the continuing threat of terrorist attacks, could increase our commodity and service costs and have material adverse effects on our results of operations and financial condition.

*Any business disruption due to political instability, armed hostilities, incidents of terrorism or natural disasters could adversely impact our financial performance.*

If terrorist activity, armed conflict, political instability or natural disasters occur in the U.S. or other locations, such events may disrupt manufacturing, labor and other aspects of our business. In the event of such incidents, our business and financial performance could be adversely affected.



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*Changes in applicable laws or regulations or evolving interpretations thereof, including increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change, may result in increased compliance costs, capital expenditures and other financial obligations for us, which could affect our profitability or impede the production or distribution of our products, which could affect our results of operations and financial condition.*

We use natural gas, diesel fuel, and electricity in the manufacturing and distribution of our products. Legislation or regulation affecting these inputs could materially affect our profitability. In addition, climate change could affect our ability to procure our commodity needs at costs we currently experience and may require additional unplanned capital expenditures.

*Our articles of incorporation, bylaws, and shareholder rights plan and Georgia law may inhibit a change in control that you may favor.*

Our articles of incorporation and bylaws, shareholder rights plan and Georgia law contain provisions that may delay, deter or inhibit a future acquisition of us if not approved by our Board of Directors. This could occur even if our shareholders are offered an attractive value for their shares or if a substantial number or even a majority of our shareholders believe the takeover is in their best interest. These provisions are intended to encourage any person interested in acquiring us to negotiate with and obtain the approval of our Board of Directors in connection with the transaction. Provisions in our organizational documents that could delay, deter or inhibit a future acquisition include the following:

- a classified Board of Directors;

- the requirement that our shareholders may only remove directors for cause;

- specified requirements for calling special meetings of shareholders; and

- the ability of the Board of Directors to consider the interests of various constituencies, including our employees, clients and creditors and the local community.

Our articles of incorporation also permit the Board of Directors to issue shares of preferred stock with such designations, powers, preferences and rights as it determines, without any further vote or action by our shareholders. In addition, we have in place a shareholders' rights plan that will trigger a dilutive issuance of common stock upon substantial purchases of our common stock by a third party that are not approved by the Board of Directors.

### **Item 1B. *Unresolved Staff Comments.***

None

## **Executive Offices**

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

## **Executive Officers of Flowers Foods**

The following table sets forth certain information regarding the persons who currently serve as the executive officers of Flowers Foods. Our Board of Directors elects our Chairman of the Board and Chief Executive Officer for



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a one-year term. The Board of Directors has granted the Chairman of the Board and Chief Executive Officer the authority to appoint the executive officers to hold office until they resign or are removed.

**EXECUTIVE OFFICERS**

**Name, Age and Office**

**Business Experience**

George E. Deese  
Age 64  
Chairman of the Board and Chief Executive Officer

Mr. Deese has been Chairman of the Board and Chief Executive Officer of Flowers Foods since January 2010. Mr. Deese previously served as Chairman of the Board, President and Chief Executive Officer of Flowers Foods from January 2006 to January 2010. He previously served as President and Chief Executive Officer of Flowers Foods from January 2004 to January 2006. Prior to that he served as President and Chief Operating Officer of Flowers Foods from May 2002 until January 2004. Mr. Deese also served as President and Chief Operating Officer of Flowers Bakeries from January 1997 until May 2002, President and Chief Operating Officer, Baked Products Group of Flowers Industries from 1983 to January 1997, Regional Vice President, Baked Products Group of Flowers Industries from 1981 to 1983 and President of Atlanta Baking Company from 1980 to 1981.

Allen L. Shiver  
Age 54  
President

Mr. Shiver has been President of Flowers Foods since January 2010. Mr. Shiver previously served as Executive Vice President and Chief Marketing Officer of Flowers Foods from May 2008 to January 2010. He previously served as President and Chief Operating Officer of the warehouse delivery segment from April 2003 until May 2008. Prior to that, he served as President and Chief Operating Officer of Flowers Snack from July 2002 until April 2003. Prior to that Mr. Shiver served as Executive Vice President of Flowers Bakeries from 1998 until 2002, as a Regional Vice President of Flowers Bakeries in 1998 and as President of Flowers Baking Company of Villa Rica from 1995 until 1998. Prior to that time, Mr. Shiver served in various sales and marketing positions at Flowers Bakeries.

R. Steve Kinsey  
Age 49  
Executive Vice President and Chief Financial Officer

Mr. Kinsey has been Executive Vice President and Chief Financial Officer of Flowers Foods since May 2008. Mr. Kinsey previously served as Senior Vice President and Chief Financial Officer of Flowers Foods from September 2007 to May 2008. Prior to that he served as Vice President and Corporate Controller of Flowers Foods from 2002 to 2007. Prior to that he served as Director of Tax of Flowers Foods from 2001 to 2002 and Flowers Industries from 1998 to 2001. Mr. Kinsey served as Tax Manager of Flowers Industries from 1994 to 1998. Mr. Kinsey joined the company in 1989 as a Tax Associate.

Gene D. Lord  
Age 62  
Executive Vice President and Chief Operating Officer

Mr. Lord has been Executive Vice President and Chief Operating Officer of Flowers Foods since May 2008. Mr. Lord previously served as President and Chief Operating Officer of the DSD segment from July 2002 to May 2008. Prior to that, he served as a Regional Vice President of Flowers Bakeries from January 1997 until July 2002. Prior to that, he served as Regional Vice



President, Baked Products Group of Flowers Industries from May 1987 until January 1997 and as President of Atlanta Baking Company from February 1981 until May 1987. Prior to that time, Mr. Lord served in various sales positions at Flowers Bakeries.

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Stephen R. Avera  
Age 53  
Executive Vice President,  
Secretary and General Counsel

Mr. Avera has been Executive Vice President, Secretary and General Counsel of Flowers Foods since May 2008. Mr. Avera previously served as Senior Vice President, Secretary and General Counsel of Flowers Foods from September 2004 to May 2008. Prior to that, he served as Secretary and General Counsel from February 2002 until September 2004. He also served as Vice President and General Counsel of Flowers Bakeries from July 1998 to February 2002. Mr. Avera also previously served as an associate and Assistant General Counsel of Flowers Industries from February 1986 to July 1998.

Michael A. Beaty  
Age 59  
Executive Vice President of Supply  
Chain

Mr. Beaty has been Executive Vice President of Supply Chain of Flowers Foods since May 2008. Mr. Beaty previously served as Senior Vice President-Supply Chain of Flowers Foods from September 2002 to May 2008. Prior to that, he served as Senior Vice President of Bakery Operations of Flowers Bakeries from September 1994 until September 2002. He also served as Vice President of Manufacturing of Flowers Bakeries from February 1987 until September 1994. Prior to that time, Mr. Beaty served in management positions at various Flowers Bakeries operations, including Vice President of Manufacturing, Executive Vice President and President of various Flowers operations from 1974 until 1987.

Marta Jones Turner  
Age 56  
Executive Vice President of  
Corporate Relations

Ms. Turner has been Executive Vice President of Corporate Relations of Flowers Foods since May 2008. Ms. Turner previously served as Senior Vice President of Corporate Relations of Flowers Foods from July 2004 to May 2008. Prior to that, she served as Vice President of Communications and Investor Relations from November 2000 until July 2004. She also served as Vice President of Public Affairs of Flowers Industries from September 1997 until January 2000 and Director of Public Relations of Flowers Industries from 1985 until 1997.

Karyl H. Lauder  
Age 53  
Senior Vice President and Chief  
Accounting Officer

Ms. Lauder has been Senior Vice President and Chief Accounting Officer of Flowers Foods since May 2008. Ms. Lauder previously served as Vice President and Chief Accounting Officer of Flowers Foods from September 2007 to May 2008. Ms. Lauder previously served as Vice President and Operations Controller of Flowers Foods from 2003 to 2007. Prior to that she served as Division Controller for Flowers Bakeries Group from 1997 to 2003. Prior to that, Ms. Lauder served as a Regional Controller for Flowers Bakeries after serving as Controller and in other accounting supervisory positions at various plant locations since 1978.

Bradley K. Alexander  
Age 51  
President, Flowers Bakeries

Mr. Alexander has been President of Flowers Bakeries since May 2008. Mr. Alexander previously served as a Regional Vice President of Flowers Bakeries from 2003 until May 2008. Prior to that, he served in various sales, marketing and operational positions since joining the company in 1981, including bakery president and Senior Vice President of Sales and Marketing.

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Donald A. Thriffiley, Jr.  
Age 56  
Senior Vice President of Human  
Resources

Mr. Thriffiley has been Senior Vice President of Human Resources for Flowers Foods since May 2008. Mr. Thriffiley, previously served as Vice President of Human Resources from 2002 to 2008. Prior to that Mr. Thriffiley served as Director of Human Resources for Flowers Bakeries and in other human resources positions since joining the company in 1977.

Vyto F. Razminas  
Age 52  
Senior Vice President and Chief  
Information Officer

Mr. Razminas has been Senior Vice President and Chief Information Officer for Flowers Foods since May 2008. Mr. Razminas, previously served as Vice President of Business and Information Systems from 2002 to 2008. Prior to that Mr. Razminas served as Chief Information Officer from 1998 to 2002.

**Table of Contents****Item 2. Properties**

The company currently operates 42 production facilities, of which 41 are owned and one is leased, as indicated below. We consider that our properties are in good condition, well maintained and sufficient for our present operations. During fiscal 2009, DSD production facilities taken as a whole, operated moderately above capacity and warehouse delivery production facilities operated moderately below capacity. Our production plant locations are:

**DSD**

Birmingham, Alabama  
Opelika, Alabama  
Tuscaloosa, Alabama  
Phoenix, Arizona  
Tolleson, Arizona  
Batesville, Arkansas  
Bradenton, Florida  
Jacksonville, Florida  
Lakeland, Florida  
Miami, Florida  
Atlanta, Georgia  
Savannah, Georgia  
Thomasville, Georgia  
Villa Rica, Georgia  
Bardstown, Kentucky

Baton Rouge, Louisiana  
Lafayette, Louisiana  
New Orleans, Louisiana  
Goldsboro, North Carolina  
Jamestown, North Carolina  
Newton, North Carolina  
Morristown, Tennessee  
Denton, Texas  
El Paso, Texas  
Houston, Texas(2)  
San Antonio, Texas  
Tyler, Texas  
Lynchburg, Virginia  
Norfolk, Virginia  
Bluefield, West Virginia

**Warehouse Delivery**

Montgomery, Alabama  
Texarkana, Arkansas  
Suwanee, Georgia  
Tucker, Georgia  
Cedar Rapids, Iowa  
London, Kentucky

Sykesville, Maryland (Leased)  
Winston-Salem, North Carolina  
Cleveland, Tennessee  
Crossville, Tennessee  
Ft. Worth, Texas

The company leases properties that house its shared services center and its information technology group, and owns its corporate headquarters facility, all of which are located in Thomasville, Georgia.

**Item 3. Legal Proceedings**

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

On July 23, 2008, a wholly-owned subsidiary of the company filed a lawsuit against Hostess in the United States District Court for the Northern District of Georgia. The complaint alleges that Hostess is infringing upon Flowers *Nature's Own* trademarks by using or intending to use the *Nature's Pride* trademark. Flowers asserts that Hostess sale or intended sale of baked goods under the *Nature's Pride* trademark is likely to cause confusion with, and likely to

dilute the distinctiveness of, the *Nature's Own* mark and constitutes unfair competition and deceptive trade practices. Flowers is seeking actual damages, an accounting of Hostess' profits from its sales of *Nature's Pride* products, and injunctive relief.

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

**Table of Contents****Item 4. Reserved****PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities****Market Information**

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

Quarter	FY 2009		Dividend	FY 2008		Dividend
	Market Price High	Market Price Low		Market Price High	Market Price Low	
First	\$ 24.44	\$ 20.40	\$ 0.150	\$ 26.53	\$ 20.90	\$ 0.125
Second	\$ 24.27	\$ 20.59	\$ 0.175	\$ 29.88	\$ 24.99	\$ 0.150
Third	\$ 26.40	\$ 22.41	\$ 0.175	\$ 32.68	\$ 23.52	\$ 0.150
Fourth	\$ 24.72	\$ 21.90	\$ 0.175	\$ 30.64	\$ 22.28	\$ 0.150

**Holders**

As of February 26, 2010, there were approximately 4,100 holders of record of our common stock.

**Dividends**

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

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following chart sets forth the amounts of securities authorized for issuance under the company's compensation plans.

Plan Category	Number of Securities to	Weighted Average	Number of Securities
	be Issued Upon Exercise of Outstanding Options, Warrants and Rights		Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))
		Exercise Price of Outstanding Options,	

**Warrants and  
Rights**

(a) (b) (c)  
(Amounts in thousands, except per share data)

Equity compensation plans approved by security holders	3,734	\$	20.34	5,291
Equity compensation plans not approved by security holders				
<b>Total</b>	<b>3,734</b>	<b>\$</b>	<b>20.34</b>	<b>5,291</b>

Under the company's compensation plans, the Board of Directors is authorized to grant a variety of stock-based awards, including stock options, restricted stock awards and deferred stock, to its directors and certain of its employees. The number of securities set forth in column (c) above reflects securities available for issuance as stock options, restricted stock and deferred stock under the company's compensation plans. The number of shares available under the compensation plan approved by security holders increased by 4,000,000 shares to 18,625,000 shares as approved in the 2009 Proxy. See Note 17, *Stock-Based Compensation*, of Notes to Consolidated Financial Statements for further information on equity compensation plans.

**Table of Contents****Stock Performance Graph**

The chart below is a comparison of the cumulative total return (assuming the reinvestment of all dividends paid) among Flowers Foods common stock, Standard & Poor's 500 Index, Standard & Poor's 500 Packaged Foods and Meats Index, and Standard & Poor's MidCap 400 Index for the period January 1, 2005 through December 31, 2009, the last trading day of our 2009 fiscal year.

**Comparison of Cumulative Five Year Total Return**

	<b>January 1, 2005</b>	<b>December 31, 2005</b>	<b>December 30, 2006</b>	<b>December 29, 2007</b>	<b>January 3, 2009</b>	<b>January 2, 2010</b>
FLOWERS FOODS INC	100.00	132.87	132.40	179.43	182.85	187.64
S&P 500 INDEX	100.00	104.91	121.48	129.04	83.29	102.12
S&P 500 PACKAGED FOODS & MEAT INDEX	100.00	92.01	107.19	110.38	97.72	113.00
S&P MIDCAP 400 INDEX	100.00	112.56	124.17	134.85	87.58	117.47

Companies in the S&P 500 Index, the S&P 500 Packaged Foods and Meats Index, and the S&P MidCap 400 Index are weighted by market capitalization and indexed to \$100 at January 1, 2005. Flowers Foods' share price is also indexed to \$100 at January 1, 2005.



**Table of Contents****Purchases of Equity Securities by the Issuer and Affiliated Purchases**

Our Board of Directors has approved a plan that authorized stock repurchases of up to 30.0 million shares of the company's common stock. Under the plan, the company may repurchase its common stock in open market or privately negotiated transactions at such times and at such prices as determined to be in the company's best interest. These purchases may be commenced or suspended without prior notice depending on then-existing business or market conditions and other factors. The following chart sets forth the amounts of our common stock purchased by the company during the fourth quarter of fiscal 2009 under the stock repurchase plan.

Period	Total Number of Shares Purchased	Weighted Average Price per Share (Amounts in thousands, except price data)	Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs
October 11, 2009 – November 7, 2009				7,912
November 8, 2009 – December 5, 2009	519	\$ 22.92	519	7,393
December 6, 2009 – January 2, 2010	44	\$ 22.94	44	7,349
Total	563	\$ 22.92	563	

**Item 6. Selected Financial Data**

The selected consolidated historical financial data presented below as of and for the fiscal years 2009, 2008, 2007, 2006, and 2005 have been derived from the audited consolidated financial statements of the company. The results of operations presented below are not necessarily indicative of results that may be expected for any future period and should be read in conjunction with *Management's Discussion and Analysis of Results of Operations and Financial Condition*, and our Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements in this Form 10-K.

For the 52 Weeks Ended January 2, 2010	For the 53 Weeks Ended January 3, 2009	For the 52 Weeks Ended_ December 29, 2007	For the 52 Weeks Ended_ December 30, 2006	For the 52 Weeks Ended_ December 31, 2005
(Amounts in thousands, except per share data)				

**Statement of Income  
Data:**

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Sales	\$ 2,600,849	\$ 2,414,892	\$ 2,036,674	\$ 1,888,654	\$ 1,715,869
Income from continuing operations before cumulative effect of a change in accounting principle	133,712	122,307	98,115	78,135	65,762
Income (loss) from discontinued operations, net of income tax				6,731	(1,627)
Cumulative effect of a change in accounting principle, net of income tax benefit				(568)(1)	
Net income	133,712	122,307	98,115	84,298	64,135
Net income attributable to noncontrolling interest	(3,415)	(3,074)	(3,500)	(3,255)	(2,904)
Net income attributable to Flowers Foods, Inc.	\$ 130,297	\$ 119,233	\$ 94,615	\$ 81,043	\$ 61,231
Income from continuing operations before cumulative effect of a change in accounting principle attributable to Flowers Foods, Inc. common shareholders per diluted share	\$ 1.41	\$ 1.28	\$ 1.02	\$ 0.81	\$ 0.66
Cash dividends per common share	\$ 0.68	\$ 0.58	\$ 0.46	\$ 0.32	\$ 0.25
<b>Balance Sheet Data:</b>					
Total assets	\$ 1,351,442	\$ 1,353,244	\$ 987,535	\$ 906,590	\$ 851,069
Long-term debt	\$ 225,905	\$ 263,879	\$ 22,508	\$ 79,126	\$ 74,403

(1) Relates to the adoption on January 1, 2006 of guidance on accounting for share-based payments.

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**Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with Selected Financial Data included herein and our Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in this Form 10-K. The following information contains forward-looking statements which involve certain risks and uncertainties. See Forward-Looking Statements.

**Overview**

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

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

Sales are principally affected by pricing, quality, brand recognition, new product introductions and product line extensions, marketing and service. The company manages these factors to achieve a sales mix favoring its higher-margin branded products, while using private label products to absorb overhead costs and maximize use of production capacity. Sales for fiscal 2009 increased 7.7% from fiscal 2008. This increase was primarily due to acquisitions and favorable pricing and mix shifts offset by the 53rd week during fiscal 2008 and decreased volume. During fiscal 2009, our sales were negatively impacted by the weak economy, the competitive landscape and higher promotional activity within the baking industry. While the company expects sales to continue to grow, it cannot guarantee at what level considering the current economic environment and competitive landscape in the baking industry.

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

**Critical Accounting Estimates**

Note 2, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements of this Form 10-K includes a summary of the significant accounting policies and methods used in the preparation of the company's consolidated financial statements.

The company's discussion and analysis of its results of operations and financial condition are based upon the Consolidated Financial Statements of the company, which have been prepared in accordance with generally accepted

accounting principles in the United States ( GAAP ). The preparation of these financial statements requires the company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. On an ongoing basis, the company evaluates its estimates, including those related to customer programs and incentives, bad debts, raw materials, inventories, long-lived assets, intangible assets, income taxes, restructuring, pensions and other post-retirement benefits and contingencies and litigation. The company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form

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the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The selection and disclosure of the company's critical accounting estimates have been discussed with the company's audit committee. The following is a review of the critical assumptions and estimates, and the accounting policies and methods listed below which are 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.

*Revenue Recognition.* The company recognizes revenue from the sale of its products at the time of delivery when title and risk of loss pass to the customer. The company records estimated reductions to revenue for customer programs and incentive offerings at the time the incentive is offered or at the time of revenue recognition for the underlying transaction that results in progress by the customer towards earning the incentive. If market conditions were to decline, the company may take actions to increase incentive offerings, possibly resulting in an incremental reduction of revenue. Independent distributors receive a discount equal to a percentage of the wholesale price of product sold to retailers and other customers. The company records such amounts as selling, marketing and administrative expenses. If market conditions were to decline, the company may take actions to increase distributor discounts, possibly resulting in an incremental increase in selling, marketing and administrative expenses at the time the discount is offered.

The consumer packaged goods industry has used scan-based trading technology over several years to share information between the supplier and retailer. An extension of this technology allows the retailer to pay the supplier when the consumer purchases the goods rather than at the time they are delivered to the retailer. Consequently, revenue is not recognized until the product is purchased by the consumer. This technology is referred to as pay-by-scan ( PBS ). The company began a pilot program in fiscal 1999, working with certain retailers to develop the technology to execute PBS, and there has been a sharp increase in its use since that time. The company believes it is a baked foods industry leader in PBS and utilizes this technology with a majority of its larger retail customers such as Wal-Mart, Winn-Dixie, Kroger and Food Lion. In fiscal 2009 the company recorded \$674.9 million in sales through PBS. The company will continue to implement PBS technology for current PBS customers as they open new retail stores during 2010. In addition, new PBS customers will begin implementation during 2010. See Note 2, *Summary of Significant Accounting Policies*, of Notes to Consolidated Financial Statements of this Form 10-K for additional information on PBS and the significant accounting policies associated with PBS.

*Derivative Instruments.* The company's cost of primary raw materials is highly correlated to the commodities markets. Commodities, such as our baking ingredients, experience price fluctuations. If actual market conditions become significantly different than those anticipated, raw material prices could increase significantly, adversely affecting our results of operations. We enter into forward purchase agreements and derivative financial instruments to manage the impact of volatility in raw material prices.

*Valuation of Long-Lived Assets, Goodwill and Other Intangibles.* The company records an impairment charge to property, plant and equipment, goodwill and intangible assets in accordance with applicable accounting standards when, based on certain indicators of impairment, it believes such assets have experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of these underlying assets could result in losses or an inability to recover the carrying value of the asset that may not be reflected in the asset's current carrying value, thereby possibly requiring impairment charges in the future. Based on management's evaluation, no impairment charges relating to long-lived assets were necessary for fiscal years 2009 or 2007. There was an impairment charge of \$3.1 million recorded in fiscal 2008, as discussed below in Results of Operations.

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The company evaluates the recoverability of the carrying value of its goodwill on an annual basis or at a time when events occur that indicate the carrying value of the goodwill may be impaired using a two step process. The first step of this evaluation is performed by calculating the fair value of the business segment, or reporting unit, with which the goodwill is associated. This fair value is calculated as the average of projected EBITDA (defined as earnings before interest, taxes, depreciation and amortization) using a reasonable multiplier, projected revenue using a reasonable multiplier and a discounted cash flow model using a reasonable discount rate. This fair value is compared to the carrying value of the reporting unit, and if less than the carrying value, the goodwill is measured for potential impairment under step two. Under step two of this calculation, goodwill is measured for potential impairment by comparing the implied fair value of the reporting unit goodwill, determined in the same manner as a business combination, with the carrying amount of the goodwill. Based on management's evaluation, no impairment charges relating to goodwill were necessary for the fiscal years ended January 2, 2010, January 3, 2009, or December 29, 2007.

In connection with acquisitions, the company has acquired trademarks, customer lists and non-compete agreements, which are intangible assets subject to amortization. The company evaluates these assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The undiscounted future cash flows of each intangible asset is compared to the carrying amount, and if less than the carrying value, the intangible asset is written down to the extent the carrying amount exceeds the fair value. Based on management's evaluation, no impairment charges relating to amortizable intangible assets were necessary for the fiscal years ended January 2, 2010, January 3, 2009, or December 29, 2007.

The company also owns trademarks acquired in acquisitions that are intangible assets not subject to amortization. The company evaluates the recoverability of the carrying value of these intangible assets on an annual basis or at a time when events occur that indicate the carrying value may be impaired. In addition, the useful life is evaluated to determine whether events and circumstances continue to support an indefinite life. The fair value is compared to the carrying value of the intangible asset, and if less than the carrying value, the intangible asset is written down to fair value. Based on management's evaluation, no impairment charges relating to intangible assets not subject to amortization were necessary for the fiscal years ended January 2, 2010, January 3, 2009, or December 29, 2007.

See Note 8, *Goodwill and Other Intangible Assets*, of Notes to Consolidated Financial Statements of this Form 10-K for further information relating to the company's goodwill and other intangible assets.

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

*Income Tax Expense and Accruals.* The annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Changes in statutory rates and tax laws in jurisdictions in which we operate may have a material effect on the annual tax rate. The effect of these changes, if any, would be recognized when the change takes place.

Deferred income taxes arise from temporary differences between tax and financial statement recognition of revenue and expense. Our income tax expense, deferred tax assets and liabilities and reserve for unrecognized tax benefits reflect our best assessment of future taxes to be paid in the jurisdictions in which we operate. The company records a valuation allowance to reduce its deferred tax assets if it is more likely than not that some or all of the deferred assets

will not be realized. While the company has considered future taxable income and ongoing prudent and feasible tax strategies in assessing the need for the valuation allowance, if these estimates and assumptions change in the future, the company may be required to adjust its valuation allowance, which could result in a charge to, or an increase in, income in the period such determination is made.



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Periodically we face audits from federal and state tax authorities, which can result in challenges regarding the timing and amount of deductions. We provide reserves for potential exposures when we consider it more likely than not that a taxing authority may take a sustainable position on a matter contrary to our position. We evaluate these reserves on a quarterly basis to insure that they have been appropriately adjusted for events, including audit settlements, that may impact our ultimate payment of such potential exposures. While the ultimate outcome of audits cannot be predicted with certainty, we do not currently believe that future audits will have a material adverse effect on our consolidated financial condition or results of operations. See Note 21, *Income Taxes*, of Notes to Consolidated Financial Statements of this Form 10-K for more information on income taxes.

*Pension Obligations.* The company records pension costs and benefit obligations related to its defined benefit plans based on actuarial valuations. These valuations reflect key assumptions determined by management, including the discount rate and expected long-term rate of return on plan assets. The expected long-term rate of return assumption considers the asset mix of the plans portfolios, past performance of these assets, the anticipated future economic environment and long-term performance of individual asset classes, and other factors. Material changes in pension costs and in benefit obligations may occur in the future due to experience different than assumed and changes in these assumptions. Future benefit obligations and annual pension costs could be impacted by changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plans and other factors. Effective January 1, 2006, the company curtailed its largest defined benefit plan that covered the majority of its workforce. Benefits under this plan were frozen, and no future benefits will accrue under this plan. The company continues to maintain another defined benefit plan that covers a small number of union employees. Effective August 4, 2008, the company assumed sponsorship of two defined benefit plans as part of the ButterKrust acquisition. Benefits under these plans are frozen, and no future benefits will accrue under these plans. The company recorded pension cost of \$2.8 million for fiscal 2009.

A quarter percentage point change in the discount rate would impact the company's fiscal 2009 pension cost by approximately \$0.2 million on a pre-tax basis. A quarter percentage point change in the long-term expected rate of return assumption would impact the company's fiscal 2009 pension cost by approximately \$0.6 million on a pre-tax basis. A quarter percentage point decrease in the discount rate would increase the company's fiscal year-end 2009 pension obligations by approximately \$10.2 million. A quarter percentage point increase in the discount rate would decrease the company's fiscal year-end 2009 pension obligations by approximately \$9.7 million. The company expects pension cost of approximately \$0.6 million for fiscal 2010.

The discount rate used by the company reflects rates at which pension benefits could be effectively settled. The company looks to rates of return on high-quality fixed income investments to determine its discount rate. The company uses a cash flow matching technique to select the discount rate. The expected cash flows of each pension plan are matched to a yield curve based on Aa-graded bonds available in the marketplace at the measurement date. A present value is developed, which is then used to develop a single equivalent discount rate.

In developing the expected long-term rate of return on plan assets at each measurement date, the company considers the plan assets' historical actual returns, targeted asset allocations, and the anticipated future economic environment and long-term performance of individual asset classes, based on the company's investment strategy. While appropriate consideration is given to recent and historical investment performance, the assumption represents management's best estimate of the long-term prospective return. Based on these factors the long-term rate of return assumption for the plans was set at 8.0% for fiscal 2010, as compared with the average annual return on the plans assets over the past 15 years of approximately 8.9% (net of expenses). The expected long-term rate of return assumption is based on a target asset allocation of 40-60% equity securities, 10-40% fixed, 0-25% real estate income securities, 0-40% other diversifying strategies (including, absolute return funds, hedged equity funds, and guaranteed insurance contracts), and 0-25% short-term investments and cash. The company regularly reviews such allocations and periodically rebalances the plan assets to the targeted allocation when considered appropriate. Pension costs do not include an

explicit expense assumption and the return on assets rate reflects the long-term expected return, net of expenses.

The company determines the fair value of substantially all its plans assets utilizing market quotes rather than developing smoothed values, market related values or other modeling techniques. Plan asset gains or losses in a given year are included with other actuarial gains and losses due to remeasurement of the plans projected benefit

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obligations ( PBO ). If the total unrecognized gain or loss exceeds 10% of the larger of (i) the PBO or (ii) the market value of plan assets, the excess of the total unrecognized gain or loss is amortized over the expected average future lifetime of participants in the frozen pension plans. The total unrecognized loss as of the fiscal 2009 measurement date of December 31, 2008 for the pension plans the company sponsors was \$97.8 million. The total unrecognized loss as of the fiscal 2010 measurement date of December 31, 2009 for the pension plans the company sponsors was \$86.9 million. The company uses a calendar year end for the measurement date since the plans are based on a calendar year and because it approximates the company's fiscal year end. Amortization of this unrecognized loss during fiscal 2010 is expected to be approximately \$2.2 million. To the extent that this unrecognized loss is subsequently recognized, then this loss will increase the company's pension costs in the future.

The company adopted new accounting standards related to fair value disclosures for pension and postretirement plan assets effective fiscal years ending on or after December 15, 2009. The new standard codifies a framework for measuring fair value and expands related disclosures. The framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The valuation techniques required by the new provisions are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect our assumptions about market participant assumptions based on best information available. Observable inputs are the preferred source of values. The three-tier fair value hierarchy, which prioritizes the observable and unobservable inputs used in the valuation methodologies, is:

Level 1 Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The Finance Committee ( committee ) of the Board of Directors establishes investment guidelines and strategies and regularly monitors the performance of the plans' assets. Management is responsible for executing these strategies and investing the pension assets in accordance with ERISA and fiduciary standards. The investment objective of the pension plans is to preserve the plans' capital and maximize investment earnings within acceptable levels of risk and volatility. The committee and members of management meet on a regular basis with its investment advisors to review the performance of the plans' assets. Based upon performance and other measures and recommendations from its investment advisors, the committee rebalances the plans' assets to the targeted allocation

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when considered appropriate. The fair values of all of the company pension plan assets at December 31, 2009, by asset category are as follows (amounts in thousands):

Asset Category	Fair Value of Pension Plan Assets as of December 31, 2009			
	Quoted prices in active markets for identical assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Short term investments and cash	\$ 8,729	\$	\$	\$ 8,729
Equity securities:				
U.S. companies	98,899			98,899
International companies	4,941			4,941
International equity funds(a)		33,946		33,946
Fixed income securities:				
Domestic mutual funds(b)	20,870			20,870
Convertible equity	398			398
Private equity funds(c)			13,235	13,235
Real estate(d)			7,762	7,762
Other types of investments:				
Guaranteed insurance contracts(e)			9,286	9,286
Hedged equity funds(f)			29,913	29,913
Absolute return funds(c)			38,038	38,038
Other assets and liabilities(g)			22	22
Accrued income(g)			134	134
<b>Total</b>	<b>\$ 133,837</b>	<b>\$ 33,946</b>	<b>\$ 98,390</b>	<b>\$ 266,173</b>

(a) This category includes funds with the principal strategy to invest primarily in long positions in international equity securities.

(b) This category invests primarily in U.S. government issued securities.

(c) This category invests primarily in absolute return strategy funds.

(d) This category includes funds that invest primarily in U.S. commercial real estate.

(e) This category invests primarily guaranteed insurance contracts through various U.S. insurance companies.

(f) This category invests primarily in hedged equity funds.

(g)

This category includes accrued interest, dividends, and amounts receivable from asset sales and amounts payable for asset purchases.

The following table provides information on the Pension Plan assets that are reported using significant unobservable inputs in the estimation of fair value (amounts in thousands):

	<b>2009 Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>						<b>Totals</b>
	<b>Fixed income securities - Alternative</b>	<b>Real Estate Funds</b>	<b>Guaranteed Insurance Contracts</b>	<b>Hedged Equity Funds</b>	<b>Absolute Return Funds</b>	<b>Other assets and liabilities and accrued income</b>	
Balance at December 31, 2008	\$ 11,327	\$ 14,795	\$ 8,768	\$ 25,909	\$ 32,265	\$	\$ 93,064
Actual return on plan assets:							
Relating to assets still held at the reporting date	3,460	(7,025)	620	4,004	5,773	134	6,966
Relating to assets sold during the period	448						448
Purchases, sales, and settlements	(2,000)	(8)	(102)			22	(2,088)
Ending balance at December 31, 2009	\$ 13,235	\$ 7,762	\$ 9,286	\$ 29,913	\$ 38,038	\$ 156	\$ 98,390

The company's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines

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consider a broad range of economic conditions. The plan asset allocation as of the measurement dates December 31, 2009 and December 31, 2008, and target asset allocations for fiscal 2010 are as follows:

Asset Category	Target Allocation 2010	Percentage of Plan Assets at the Measurement Date	
		2009	2008
Equity securities	40-60%	51.8%	47.6%
Fixed income securities	10-40%	13.0%	12.3%
Real estate	0-25%	2.9%	6.1%
Other diversifying strategies(1)	0-40%	29.0%	27.5%
Short term investments and cash	0-25%	3.3%	6.3%
Other	0%	0.0%	0.2%
Total		100.0%	100.0%

(1) Includes absolute return funds, hedged equity funds, and guaranteed insurance contracts.

Equity securities include Flowers common stock of 1,346,828 shares and 1,346,828 shares in the amount of \$32.0 million and \$32.1 million (12.0% and 13.2% of total plan assets) as of December 31, 2009 and December 31, 2008, respectively.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

On September 29, 2006, the Financial Accounting Standards Board ( FASB ) issued guidance that was effective for public companies for fiscal years ending after December 15, 2006. The company adopted the balance sheet recognition provisions at December 30, 2006, the end of its fiscal year 2006. See Note 20, *Postretirement Plans*, of Notes to Consolidated Financial Statements of this Form 10-K for information regarding the company's postretirement plans.

During fiscal years 2009, 2008, and 2007 the company contributed \$0.5 million, \$0.0 million, and \$1.0 million, respectively, to the defined benefit plans. Despite an average return on plan assets of 8.9% over the last 15 years, contributions in future years are expected to increase because of the significantly lower than expected asset returns during 2008. During 2010, the company expects to contribute approximately \$0.8 million to its pension plans. This amount represents estimated minimum pension contributions required under ERISA and the Pension Protection Act of 2006 ( PPA ) as well as discretionary contributions to avoid benefit restrictions. This amount represents estimates that are based on assumptions that are subject to change. The Worker, Retiree, and Employer Recovery Act of 2008 ( WRERA ) was signed into law on December 23, 2008. WRERA granted plan sponsors relief from certain funding requirements and benefit restrictions, and also provided some technical corrections to the PPA. One of the technical corrections allowed the use of asset smoothing, with limitations, for up to a 24-month period in determining funding requirements. The company elected to use asset smoothing for the 2009 plan year. As a result, contributions may be deferred to later years or reduced through market recovery. In October 2009, the IRS released final regulations on certain aspects of minimum funding requirements and benefit restrictions under the PPA. The effective date of the

final regulations is for plan years beginning on or after January 1, 2010. The company continues to review various contribution scenarios based on current market conditions and options available to plan sponsors under the final PPA regulations. In assessing different scenarios, the company believes its strong cash flow and balance sheet will allow it to fund future pension needs without affecting the business strategy of the company.

**Matters Affecting Analysis**

*Reporting Periods.* The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2009 and fiscal 2007 consisted of 52 weeks. Fiscal 2008 consisted of 53 weeks. Fiscal 2010 will consist of 52 weeks.

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*Acquisitions.* On October 17, 2009, the company acquired Leo's. Leo's operates one tortilla facility in Ft. Worth, Texas that makes an extensive line of flour and corn tortillas and tortilla chips that are sold to foodservice and institutional customers nationwide. As a result of the acquisition, the company added capacity in the growing tortilla market segment. This acquisition is reported in the warehouse delivery segment.

On May 15, 2009, the company acquired substantially all the assets of a bakery mix operation in Cedar Rapids, Iowa that is reported in the warehouse delivery segment.

On August 11, 2008, the company merged with Holsum. Holsum operates two bakeries in the Phoenix, Arizona area and serves customers in Arizona, New Mexico, southern Nevada and southern California with fresh breads and rolls under the *Holsum*, *Aunt Hattie's*, and *Roman Meal* brands. As a result of the merger, the company has expanded into new geographic markets. The results of operations for Holsum are included in the DSD segment.

On August 4, 2008, the company acquired ButterKrust. ButterKrust manufactures fresh breads and rolls in Lakeland, Florida and its products are available throughout Florida under *Country Hearth*, *Rich Harvest*, and *Sunbeam* brands, as well as store brands. The company added additional production capacity in the Florida market with the acquisition. The results of operations for ButterKrust are included in the DSD segment.

On December 28, 2007, the company acquired certain assets of Key Mix Corporation ( Key Mix ) in Sykesville, Maryland. Key Mix produces a variety of mixes used in the baking industry. The results of operations for Key Mix are included in the warehouse delivery segment.



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The company's results of operations, expressed as a percentage of sales, are set forth below for the fifty two weeks ended January 2, 2010 and the fifty three weeks ended January 3, 2009:

			Percentage of Sales		Increase (Decrease)	
	For the Fifty-Two Weeks Ended January 2, 2010	For the Fifty-Three Weeks Ended January 3, 2009	For the Fifty-Two Weeks Ended January 2, 2010	For the Fifty-Three Weeks Ended January 3, 2009	Dollars (Amounts in thousands)	%
(Amounts in thousands)						
<b>Sales</b>						
DSD	\$ 2,135,128	\$ 1,999,293	82.1	82.8	\$ 135,835	6.8
Warehouse delivery	465,721	415,599	17.9	17.2	50,122	12.1
Total	\$ 2,600,849	\$ 2,414,892	100.0	100.0	\$ 185,957	7.7
<b>Gross margin(1)</b>						
DSD(2)	\$ 1,074,730	\$ 1,037,596	50.3	51.9	\$ 37,134	3.6
Warehouse delivery(2)	135,936	113,334	29.2	27.3	22,602	19.9
Total	\$ 1,210,666	\$ 1,150,930	46.5	47.7	\$ 59,736	5.2
<b>Selling, marketing and administrative expenses</b>						
DSD(2)	\$ 817,613	\$ 792,435	38.3	39.6	\$ 25,178	3.2
Warehouse delivery(2)	71,561	74,425	15.4	17.9	(2,864)	(3.8)
Corporate(3)	37,244	27,940			9,304	33.3
Total	\$ 926,418	\$ 894,800	35.6	37.1	\$ 31,618	3.5
<b>Depreciation and amortization</b>						
DSD(2)	\$ 64,578	\$ 57,447	3.0	2.9	\$ 7,131	12.4
Warehouse delivery(2)	16,062	15,549	3.4	3.7	513	3.3
Corporate(3)	288	316			(28)	(8.9)
Total	\$ 80,928	\$ 73,312	3.1	3.0	\$ 7,616	10.4
<b>Gain on acquisition</b>						
DSD(2)	\$	\$	&nbs			