

FLOWERS FOODS INC
Form 10-Q
May 19, 2011

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

(Mark One)

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

For the quarterly period ended April 23, 2011

OR

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

For the transition period from _____ to _____

Commission file number 1-16247

FLOWERS FOODS, INC.

(Exact name of registrant as specified in its charter)

GEORGIA

58-2582379

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

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

1919 FLOWERS CIRCLE, THOMASVILLE, GEORGIA

(Address of principal executive offices)

31757

(Zip Code)

229/226-9110

(Registrant's telephone number, including area code)

N/A

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

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

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

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

**Large accelerated
filer**

**Accelerated
filer**

Non-accelerated filer

**Smaller reporting
company**

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

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

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

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

FLOWERS FOODS, INC.
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Forward-Looking Statements

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

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

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

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

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

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

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

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

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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

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

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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

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

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

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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FLOWERS FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

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

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

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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

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

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

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

SIGNIFICANT CUSTOMER Following is the effect our largest customer, Wal-Mart/Sam s Club, had on the company s sales for the sixteen weeks ended April 23, 2011 and April 24, 2010. No other customer accounted for 10% or more of the company s sales.

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

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

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

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

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

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

3. GOODWILL AND OTHER INTANGIBLES

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

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

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

Asset	April 23, 2011 Accumulated			January 1, 2011 Accumulated		
	Cost	Amortization	Net Value	Cost	Amortization	Net Value
Trademarks	\$ 35,268	\$ 5,161	\$ 30,107	\$ 35,268	\$ 4,687	\$ 30,581
Customer relationships	75,434	14,869	60,565	75,434	13,675	61,759
Non-compete agreements	1,874	1,367	507	1,874	1,353	521
Distributor relationships	2,600	467	2,133	2,600	413	2,187
Supply agreement	1,050	674	376	1,050	566	484
Total	\$ 116,226	\$ 22,538	\$ 93,688	\$ 116,226	\$ 20,694	\$ 95,532

There is an additional \$1.5 million indefinite life intangible asset, which is not being amortized, separately identified from goodwill.

Aggregate amortization expense for the sixteen weeks ending April 23, 2011 and April 24, 2010 were \$1.8 million and \$1.9 million, respectively.

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

	Amortization of Intangibles
Remainder of 2011	\$ 4,118
2012	\$ 5,677
2013	\$ 5,488
2014	\$ 5,389
2015	\$ 5,237

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The carrying value of cash and cash equivalents, accounts receivable and short-term debt approximates fair value because of the short-term maturity of the instruments. Notes receivable are entered into in connection with the purchase of distributors territories by independent distributors. These notes receivable are recorded in the consolidated balance sheet at carrying value which represents the closest approximation of fair value. In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a result, the appropriate interest rate that should be used to estimate the fair value of the distributor notes is the prevailing market rate at which similar loans would be made to distributors with similar credit ratings and for the same maturities. However, the company finances approximately 2,550 independent distributors all with varied financial histories and credit risks. Considering the diversity of credit risks among the independent distributors, the company has no method to accurately determine a market interest rate to apply to the notes. The territories are generally financed over ten years bearing an interest rate of 12% and the distributor notes are collateralized by the independent distributors territories. The fair value of the company's long-term debt at April 23, 2011 approximates the carrying value. For fair value disclosures information about our derivative assets and liabilities see Note 5, *Derivative Financial Instruments*.

During the sixteen weeks ending April 23, 2011 and April 24, 2010, \$3.9 million and \$3.9 million, respectively, was recorded as interest income relating to the distributor notes.

At April 23, 2011 and January 1, 2011, respectively, the carrying values of the distributor notes were as follows (amounts in thousands):

	April 23, 2011	January 1, 2011
Distributor notes receivable	\$ 105,044	\$ 105,396
Current portion of distributor notes receivable recorded in accounts and notes receivable, net	12,704	12,536
Long-term portion of distributor notes receivable	\$ 92,340	\$ 92,860

At April 23, 2011 and January 1, 2011, the company has evaluated the collectability of the distributor notes and determined that a reserve is not necessary. Payments on these distributor notes are collected by the company weekly in the distributor settlement process.

5. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

This change in measurement technique had no material impact on the reported value of our derivative portfolio.

COMMODITY PRICE RISK

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

As of April 23, 2011, the company's hedge portfolio contained commodity derivatives with a net fair value of \$23.0 million, which is recorded in the following accounts with fair values measured as indicated (amounts in millions):

	Level 1	Level 2	Level 3	Total
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Assets:				
Other current	\$ 23.6	\$	\$	\$ 23.6
Other long-term	1.1			1.1
Total	24.7			24.7
Liabilities:				
Other current		(1.4)		(1.4)
Other long-term		(0.3)		(0.3)
Total		(1.7)		(1.7)
Net Fair Value	\$ 24.7	\$ (1.7)	\$	\$ 23.0

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The positions held in the portfolio are used to hedge economic exposure to changes in various raw material prices and effectively fix the price, or limit increases in prices, for a period of time extending into fiscal 2012. These instruments are designated as cash-flow hedges. The effective portion of changes in fair value for these derivatives is recorded each period in other comprehensive income (loss), and any ineffective portion of the change in fair value is recorded to current period earnings in selling, distribution and administrative expenses. All of the company held commodity derivatives at April 23, 2011 and January 1, 2011 qualified for hedge accounting.

INTEREST RATE RISK

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

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

As of April 23, 2011, the fair value of the interest rate swaps was \$(5.6) million, which is recorded in the following accounts with fair values measured as indicated (amounts in millions):

	Level 1	Level 2	Level 3	Total
Liabilities:				
Other current	\$	\$ (3.6)	\$	\$ (3.6)
Other long-term		(2.0)		(2.0)
Total		(5.6)		(5.6)
Net Fair Value	\$	\$ (5.6)	\$	\$ (5.6)

During the sixteen weeks ended April 23, 2011, interest expense of \$1.3 million was recognized due to periodic settlements of the swap agreements.

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

	Derivative Assets				Derivative Liabilities			
	April 23, 2011		January 1, 2011		April 23, 2011		January 1, 2011	
Derivatives designated as hedging instruments	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value
Interest rate contracts		\$		\$	Other current liabilities \$ 3,580		Other current liabilities \$ 3,789	
Interest rate contracts					Other long term liabilities 2,059		Other long term liabilities 2,684	
Commodity contracts	Other current assets	23,577	Other current assets	22,380	Other current liabilities 1,346		Other current liabilities 2,032	

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Commodity contracts	Other long term assets	1,116	Other long term assets	Other long term liabilities	302	Other long term liabilities	371
Total		\$ 24,693			\$ 7,287		\$ 8,876

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

Derivatives in	Amount of Gain or (Loss) Recognized in OCI on		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)(Net of tax)	
	Derivative (Effective Portion)(Net of tax)			For the sixteen weeks ended	
Cash Flow Hedge Relationships	April 23, 2011	April 24, 2010	For the sixteen weeks ended	April 23, 2011	April 24, 2010
Interest rate contracts	\$ (138)	\$ (891)	Interest expense (income)	\$ (800)	\$ (942)
Commodity contracts	8,630	(4,859)	Production costs(1)	14,095	(7,088)
Total	\$ 8,492	\$ (5,750)		\$ 13,295	\$ (8,030)

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

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The balance in accumulated other comprehensive income (loss) related to commodity price risk and interest rate risk derivative transactions that are closed or will expire in the next four years are as follows (amounts in millions and net of tax) at April 23, 2011:

	Commodity price risk derivatives	Interest rate risk derivatives	Totals
Closed contracts	\$ 8.2	\$ 0.2	\$ 8.4
Expiring in 2011	11.6	(1.6)	10.0
Expiring in 2012	2.6	(1.6)	1.0
Expiring in 2013		(0.3)	(0.3)
Total	\$ 22.4	\$ (3.3)	\$ 19.1

As of April 23, 2011, the company had the following outstanding financial contracts that were entered to hedge commodity and interest rate risk:

Derivatives in Cash Flow Hedge Relationship	Notional amount (millions)
Interest rate contracts	\$ 108.8
Wheat contracts	152.3
Soybean oil contracts	18.3
Natural gas contracts	11.3
Total	\$ 290.7

The company's derivative instruments contain no credit-risk-related contingent features at April 23, 2011. As of April 23, 2011 and January 1, 2011, the company had \$10.9 million and \$11.5 million, respectively, in other accrued liabilities representing collateral from counterparties for hedged positions.

6. DEBT AND OTHER OBLIGATIONS

Long-term debt and capital leases consisted of the following at April 23, 2011 and January 1, 2011 (amounts in thousands):

	April 23, 2011	January 1, 2011
Unsecured credit facility	\$	\$
Unsecured term loan	108,750	114,375
Capital lease obligations	8,732	10,541
Other notes payable	2,221	2,386
	119,703	127,302
Less current maturities	29,097	28,432
Total long-term debt and capital leases	\$ 90,606	\$ 98,870

On August 1, 2008, the company entered into a Credit Agreement (the term loan) with various lending parties for the purpose of completing two acquisitions. The term loan provides for an amortizing \$150.0 million of borrowings through the maturity date of August 1, 2013. The term loan includes certain customary restrictions, which, among

other things, require maintenance of financial covenants and limit encumbrance of assets and creation of indebtedness. Restrictive financial covenants include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. The company believes that, given its current cash position, its cash flow from operating activities and its available credit capacity, it can comply with the current terms of the term loan and can meet presently foreseeable financial requirements. As of April 23, 2011 and January 1, 2011, the company was in compliance with all restrictive financial covenants under the term loan.

Interest is due quarterly in arrears on outstanding borrowings at a customary Eurodollar rate or the base rate plus the applicable margin. The underlying rate is defined as the rate offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranges from 0.0% to 1.375% for base rate loans and from 0.875% to 2.375% for Eurodollar loans and is based on the company's leverage ratio. Principal payments began on December 31, 2008 and are due quarterly under the term loan at an annual amortization of 10% of the principal balance for the first two years, 15% during the third year, 20% during the fourth year, and 45% during the fifth year. The company paid financing costs of \$0.8 million in connection with the term loan, which is being amortized over the life of the term loan.

The company has a five-year, \$250.0 million senior unsecured revolving loan facility (the credit facility) which expires October 5, 2012. The company may request to increase its borrowings under the credit facility up to an aggregate of \$350.0 million upon the satisfaction of certain conditions. Proceeds from the credit facility may be used for working capital and general corporate purposes, including acquisition financing, refinancing of indebtedness and share repurchases. The credit facility includes certain customary restrictions, which, among other things, require maintenance of financial covenants and limit encumbrance of assets and creation of indebtedness. Restrictive financial covenants include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. The company believes that, given its current cash position, its cash flow from operating activities and its available credit capacity, it can comply with the current terms of the credit facility and can meet presently foreseeable financial requirements. As of April 23, 2011 and January 1, 2011, the company was in compliance with all restrictive financial covenants under its credit facility.

Interest is due quarterly in arrears on any outstanding borrowings at a customary Eurodollar rate or the base rate plus the applicable margin. The underlying rate is defined as rates offered in the interbank Eurodollar market or the higher of the prime lending rate or federal

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funds rate plus 0.5%. The applicable margin ranges from 0.0% to 0.30% for base rate loans and from 0.40% to 1.275% for Eurodollar loans. In addition, a facility fee ranging from 0.10% to 0.35% is due quarterly on all commitments under the credit facility. Both the interest margin and the facility fee are based on the company's leverage ratio. Financing costs of \$0.9 million were deferred and are being amortized over the term of the credit facility.

Book overdrafts occur when checks have been issued but have not been presented to the bank for payment. These bank accounts allow us to delay funding of issued checks until the checks are presented for payment. A delay in funding results in a temporary source of financing from the bank. The activity related to book overdrafts is shown as a financing activity in our consolidated statements of cash flows. Book overdrafts are included in other current liabilities on our consolidated balance sheets. As of April 23, 2011 and January 1, 2011, the book overdraft balance was \$7.0 million and \$9.7 million, respectively.

7. VARIABLE INTEREST ENTITY

The company maintains a transportation agreement with an entity that transports a significant portion of the company's fresh bakery products from the company's production facilities to outlying distribution centers. The company represents a significant portion of the entity's revenue. This entity qualifies as a VIE. Under previous accounting guidance, we consolidated the VIE in our consolidated financial statements from the first quarter of 2004 through the fourth quarter of 2009 because during that time the company was considered to be the primary beneficiary. Under the revised principles, which became effective at the beginning of our fiscal 2010, we determined that the company is no longer the primary beneficiary and we deconsolidated the VIE in our financial statements. The VIE has collateral that is sufficient to meet its capital lease and other debt obligations and the owner of the VIE personally guarantees the obligations of the VIE. The VIE's creditors have no recourse against the general credit of the company.

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

As part of the deconsolidation of the VIE, the company concluded that certain of the trucks and trailers the VIE uses for distributing our products from the manufacturing facilities to the distribution centers qualify as right to use leases. As of April 23, 2011 and January 1, 2011, there was \$8.1 million and \$9.7 million, respectively, in net property, plant and equipment and capital lease obligations associated with the right to use leases.

8. LITIGATION

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

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

constitutes unfair competition and deceptive trade practices. Flowers is seeking actual damages, an accounting of Hostess profits from its sales of *Nature's Pride* products, and injunctive relief. Flowers sought summary judgment for its claims, which was denied by the court. Unless our motion for reconsideration is granted and changes that ruling, we expect this case to proceed to trial in 2011.

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**9. EARNINGS PER SHARE**

The following is a reconciliation of net income and weighted average shares for calculating basic and diluted earnings per common share for the sixteen weeks ended April 23, 2011 and April 24, 2010 (amounts in thousands, except per share data):

	For the Sixteen Weeks Ended	
	April 23, 2011	April 24, 2010
Net income	\$ 41,161	\$ 40,687
Dividends on participating securities not expected to vest*		
Net income attributable to common and participating shareholders	\$ 41,161	\$ 40,687
Basic Earnings Per Common Share:		
Weighted average shares outstanding for common stock	90,118	91,251
Weighted average shares outstanding for participating securities	96	266
Basic weighted average shares outstanding for common stock	90,214	91,517
Basic earnings per common share	\$ 0.46	\$ 0.44
Diluted Earnings Per Common Share:		
Basic weighted average shares outstanding for common stock	90,214	91,517
Add: Shares of common stock assumed issued upon exercise of stock options and vesting of restricted stock	773	687
Diluted weighted average shares outstanding for common stock	90,987	92,204
Diluted earnings per common share	\$ 0.45	\$ 0.44

* The company expects all participating securities share awards outstanding at April 24, 2010 to vest.

Stock options to purchase 2,249,667 shares and 2,128,925 shares of common stock were not included in the computation of diluted earnings per share for the sixteen weeks ended April 23, 2011 and April 24, 2010, respectively, because their effect would have been anti-dilutive.

10. STOCK BASED COMPENSATION

Our 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009, (EPIP) was approved by our shareholders and authorizes the compensation committee of the Board of Directors to make a variety of stock-based awards while selecting the form that is most appropriate for the company and eligible recipients. Our officers, key employees and non-employee directors (whose grants are generally approved by the full Board of Directors) are eligible to receive awards under the EPIP. The aggregate number of shares that may be issued or transferred under the EPIP is 18,625,000 shares. Over the life of the EPIP, the company has only issued options, restricted stock and deferred stock. The following is a summary of stock options, restricted stock, and deferred stock outstanding under the EPIP. Information relating to the company's stock appreciation rights which are not issued under the EPIP is also disclosed below.

Stock Options

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

thousands, except price data and as indicated):

Grant date	2/10/2011	2/9/2010	2/9/2009
Shares granted	1,428	1,136	993
Exercise price(\$)	24.47	25.01	23.84
Vesting date	2/10/2014	2/9/2013	2/9/2012
Fair value per share(\$)	5.20	5.54	5.87
Dividend yield(%) ⁽¹⁾	3.00	3.00	2.20
Expected volatility(%) ⁽²⁾	29.20	30.60	31.80
Risk-free interest rate(%) ⁽³⁾	2.44	2.35	2.00
Expected option life (years) ⁽⁴⁾	5.00	5.00	5.00
Outstanding at April 23, 2011	1,428	1,117	979

1. Dividend yield – estimated yield based on the historical dividend payment for the four most recent dividend payments prior to the grant date.
2. Expected volatility – based on historical volatility over the expected term using daily stock prices.
3. Risk-free interest rate – United States Treasury Constant Maturity rates as of the grant date over the expected term.
4. Expected option life – The 2009, 2010, and 2011 grant assumptions are based on the simplified formula determined in accordance with Staff Accounting Bulletin No. 110. The company does not have sufficient historical exercise behavior data to reasonably estimate the expected option life.

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The stock option activity for the sixteen weeks ended April 23, 2011 pursuant to the EPIP is set forth below (amounts in thousands, except price data):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	4,365	\$ 22.00		
Granted	1,428	\$ 24.47		
Exercised	(91)	\$ 11.07		
Forfeited	(20)	\$ 24.50		
Outstanding at April 23, 2011	5,682	\$ 22.78	4.77	\$ 37,195
Exercisable at April 23, 2011	2,168	\$ 20.06	2.87	\$ 20,102

As of April 23, 2011, all options outstanding under the EPIP had an average exercise price of \$22.78 and a weighted average remaining contractual life of 4.77 years.

As of April 23, 2011, there was \$9.0 million of total unrecognized compensation expense related to unvested stock options. This expense is expected to be recognized over a weighted-average period of 2.2 years.

The cash received, the (shortfall) windfall tax (expense) benefit, and intrinsic value from stock option exercises for the sixteen weeks ended April 23, 2011 and April 24, 2010 were as follows (amounts in thousands):

	April 23, 2011	April 24, 2010
Cash received from option exercises	\$1,007	\$2,531
Cash tax windfall (shortfall), net	\$ 489	\$ (34)
Intrinsic value of stock options exercised	\$1,520	\$ 736

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

Performance-Contingent Restricted Stock

Certain key employees have been granted performance-contingent restricted stock. The awards generally vest approximately two years from the date of grant (after the filing of the company's Annual Report on Form 10-K) and the performance condition requires the company's return on invested capital to exceed its weighted average cost of capital by 3.75% (the ROI Target) over the two fiscal years immediately preceding the vesting date. If the ROI Target is not met the awards are forfeited. Furthermore, each grant of performance-contingent restricted stock will be adjusted as set forth in the market condition described below:

if the ROI Target is satisfied, then the performance-contingent restricted stock grant may be adjusted based on the company's total return to shareholders (Company TSR) percent rank as compared to the total return to shareholders of the S&P Packaged Food & Meat Index (S&P TSR) in the manner set forth below:

If the Company TSR rank is equal to the 50th percentile of the S&P TSR, then no adjustment;

If the Company TSR rank is less than the 50th percentile of the S&P TSR, the grant shall be reduced by 1.3% for each percentile below the 50th percentile that the Company TSR is less than the 50th percentile of S&P TSR, but in no event shall such reduction exceed 20%; or

If the Company TSR rank is greater than the 50th percentile of the S&P TSR, the grant shall be increased by 1.3% for each percentile above the 50th percentile that Company TSR is greater than the 50th percentile of S&P TSR, but in no event shall such increase exceed 20%.

In connection with the vesting of the performance-contingent restricted stock granted in February 2009, during the sixteen weeks ended April 23, 2011, the Company TSR rank was less than the 50th percentile and the grant was reduced by 20% of the award or 40,280 common shares. The total amount of shares that were issued to plan participants was 161,120. Because the company achieved the ROI Target the total cost for the award was not reversed for the portion of shares that did not vest.

The performance-contingent restricted stock generally vests immediately if the grantee dies or becomes disabled. However, at normal retirement the grantee will receive a pro-rata number of shares through the grantee's retirement date at the normal vesting date. In addition, the performance-contingent restricted stock will immediately vest at the grant date award level without adjustment if the company undergoes

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a change in control. During the vesting period, the grantee is treated as a normal shareholder with respect to voting rights. Dividends declared during the vesting period will accrue and will be paid at vesting for the shares that ultimately vest but will not exceed 100% of the award. The fair value estimate was determined using a *Monte Carlo* simulation model, which utilizes multiple input variables to determine the probability of the company achieving the market condition discussed above. Inputs into the model included the following for the company and comparator companies: (i) total stockholder return from the beginning of the performance cycle through the measurement date; (ii) volatility; (iii) risk-free interest rates; and (iv) the correlation of the comparator companies' total stockholder return. The inputs are based on historical capital market data.

The following restricted stock awards have been granted under the EPIP since fiscal 2009 (amounts in thousands, except price data):

Grant date	2/10/2011	2/9/2010	2/9/2009
Shares granted	216	179	204
Approximate vesting date	2/10/2013	2/9/2012	2/9/2011
Fair value per share	\$ 23.90	\$ 26.38	\$ 24.96

A summary of the status of the company's nonvested shares as of April 23, 2011, and changes during the quarter ended April 23, 2011, is presented below (amounts in thousands, except price data):

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2011	379	\$ 25.62
Granted	216	\$ 23.90
Vested	(161)	\$ 24.96
Canceled	(40)	\$ 24.96
Forfeited	(5)	\$ 25.57
Nonvested at April 23, 2011	389	\$ 25.00

As of April 23, 2011, there was \$6.5 million of total unrecognized compensation cost related to nonvested restricted stock granted by the EPIP. That cost is expected to be recognized over a weighted-average period of 1.5 years. The total intrinsic value of shares vested during the period ended April 23, 2011 was \$3.4 million.

Stock Appreciation Rights

Prior to 2007, the company allowed non-employee directors to convert their retainers and committee chairman fees into rights. These rights vest after one year and can be exercised over nine years. The company records compensation expense for these rights at a measurement date based on changes between the grant price and an estimated fair value of the rights using the *Black-Scholes* option-pricing model.

The fair value of the rights at April 23, 2011 ranged from \$12.02 to \$27.39. The following assumptions were used to determine fair value of the rights discussed above using the *Black-Scholes* option-pricing model at April 23, 2011: dividend yield 3.1%; expected volatility 29.0%; risk-free interest rate 2.15% and expected life of 0.20 years to 2.55 years.

The rights activity for the sixteen weeks ended April 23, 2011 is set forth below (amounts in thousands except price data):

Weighted Average Exercise	Weighted Average Remaining Contractual	Aggregate Intrinsic
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	Rights	Price	Term (Years)	Value
Outstanding at January 1, 2011	231	\$ 11.14		
Rights exercised	(24)	12.71		
Rights forfeited				
Outstanding at April 23, 2011	207	\$ 10.94	2.62	\$ 3,807

Deferred Stock

Pursuant to the EPIP, the company allows non-employee directors to convert their annual board retainers into deferred stock. The deferred stock has a minimum two year vesting period and will be distributed to the individual (along with accumulated dividends) at a time designated by the individual at the date of conversion. During the first quarter of fiscal 2011 an aggregate of 16,040 shares were converted. The company records compensation expense for this deferred stock over the two-year minimum vesting period based on the closing price of the company's common stock on the date of conversion. During the sixteen weeks ending April 23, 2011, a total of 20,950 deferred shares were exercised for retainer conversions.

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Pursuant to the EPIP non-employee directors also receive annual grants of deferred stock. This deferred stock vests over one year from the grant date. During the second quarter of fiscal 2010, non-employee directors were granted an aggregate of 44,220 shares of deferred stock. The deferred stock will be distributed to the grantee at a time designated by the grantee at the date of grant. Compensation expense is recorded on this deferred stock over the one year minimum vesting period. During the sixteen weeks ending April 23, 2011, a total of 7,015 deferred shares were exercised for annual grant awards.

The deferred stock activity for the sixteen weeks ended April 23, 2011 is set forth below (amounts in thousands, except price data):

	Shares	Weighted Average Grant Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	160	\$ 22.66		
Deferred stock issued	16	\$ 24.33		
Deferred stock exercised	(28)	\$ 22.29		
Outstanding at April 23, 2011	148	\$ 22.91	0.31	\$ 4,343

The following table summarizes the company's stock based compensation expense for the sixteen weeks ended April 23, 2011 and April 24, 2010 (amounts in thousands):

	April 23, 2011	April 24, 2010
Stock options	\$ 3,542	\$ 2,410
Performance-contingent restricted stock	1,432	1,546
Stock appreciation rights	514	366
Deferred stock	441	431
Total stock based compensation	\$ 5,929	\$ 4,753

11. POST-RETIREMENT PLANS

The following summarizes the company's balance sheet related pension and other postretirement benefit plan accounts at April 23, 2011 as compared to accounts at January 1, 2011 (amounts in thousands):

	AS OF	
	April 23, 2011	January 1, 2011
Current benefit liability	\$ 1,011	\$ 1,011
Noncurrent benefit liability	\$74,643	\$76,086
Accumulated other comprehensive loss	\$57,157	\$57,614

Defined Benefit Plans

The company has trustee, noncontributory defined benefit pension plans covering certain employees. The benefits are based on years of service and the employees' career earnings. The plans are funded at amounts deductible for income tax purposes but not less than the minimum funding required by the Employee Retirement Income Security Act of 1974 (ERISA). As of April 24, 2010, the assets of the plans included certificates of deposit, marketable equity securities, mutual funds, corporate and government debt securities, private and public real estate partnerships, other

diversifying strategies and annuity contracts. Effective January 1, 2006, the company curtailed the defined benefit plan that covers the majority of its workforce. Benefits under this plan were frozen, and no future benefits will accrue under this plan. The company continues to maintain a plan that covers a small number of certain union employees. During the sixteen weeks ended April 23, 2011 the company contributed \$0.6 million to company pension plans.

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

	FOR THE SIXTEEN WEEKS ENDED	
	APRIL 23, 2011	APRIL 24, 2010
Service cost	\$ 147	\$ 119
Interest cost	5,616	5,743
Expected return on plan assets	(6,657)	(6,358)
Amortization of net loss	839	670
Total net periodic benefit cost	\$ (55)	\$ 174

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

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

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

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

	FOR THE SIXTEEN WEEKS ENDED	
	APRIL 23, 2011	APRIL 24, 2010
Service cost	\$ 131	\$ 198
Interest cost	212	271
Amortization of net (gain) loss	(15)	(13)
Amortization of prior service (credit) cost	(79)	(31)
Total net periodic benefit cost	\$ 249	\$ 425

401(k) Retirement Savings Plan

The Flowers Foods 401(k) Retirement Savings Plan (the Plan) covers substantially all of the company's employees who have completed certain service requirements. The cost and contributions for those employees who also participate in the defined benefit pension plan is 25% of the first \$400 contributed by the employee. Prior to January 1, 2006, the costs and contributions for employees who do not participate in the defined benefit pension plan was 2% of compensation and 50% of the employees' contributions, up to 6% of compensation. Effective January 1, 2006, the costs and contributions for employees who do not participate in the defined benefit pension plan increased to 3% of compensation and 50% of the employees' contributions, up to 6% of compensation. During the sixteen weeks ended April 23, 2011 and April 24, 2010, the total cost and contributions were \$6.0 million and \$5.5 million, respectively.

The company also has a smaller 401(k) Plan associated with an acquisition that will be merged into the Flowers Foods 401(k) Retirement Savings Plan later this year.

12. INCOME TAXES

The company's effective tax rate for the first quarter of fiscal 2011 was 35.0%. This rate is slightly higher than the 2010 annual effective rate of 34.9%, which included the benefit of favorable discrete items. The company's current effective rate is favorably impacted by an increase in the Section 199 qualifying production activities deduction. The most significant differences in the effective rate and the statutory rate are state income taxes and the Section 199 qualifying production activities deduction.

During the first quarter of fiscal 2011, the company's activity with respect to its FIN 48 reserve and related interest expense accrual was immaterial. At this time, we do not anticipate significant changes to the amount of gross unrecognized tax benefits over the next twelve months.

Table of Contents**13. SEGMENT REPORTING**

DSD produces fresh and frozen packaged bread and rolls and warehouse delivery produces frozen bread and rolls, tortillas and snack products. The company evaluates each segment's performance based on income or loss before interest and income taxes, excluding unallocated expenses and charges which the company's management deems to be an overall corporate cost or a cost not reflective of the segment's core operating businesses. Information regarding the operations in these reportable segments is as follows:

	FOR THE SIXTEEN WEEKS ENDED	
	APRIL 23, 2011	APRIL 24, 2010
SALES:		
DSD	\$ 654,231	\$ 653,778
Warehouse delivery	191,802	184,945
Eliminations: Sales from warehouse delivery to DSD	(36,827)	(36,093)
Sales from DSD to warehouse delivery	(7,381)	(7,604)
	\$ 801,825	\$ 795,026
DEPRECIATION AND AMORTIZATION:		
DSD	\$ 21,867	\$ 20,102
Warehouse delivery	6,056	5,536
Other	69	(1)
	\$ 27,992	\$ 25,637
INCOME (LOSS) FROM OPERATIONS:		
DSD	\$ 64,219	\$ 60,683
Warehouse delivery	11,331	13,533
Other	(14,032)	(12,176)
	\$ 61,518	\$ 62,040
NET INTEREST INCOME	\$ 1,762	\$ 1,131
INCOME BEFORE INCOME TAXES	\$ 63,280	\$ 63,171

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

	For the Sixteen Weeks Ended April 23, 2011			For the Sixteen Weeks Ended April 24, 2010		
	DSD	Warehouse Delivery	Total	DSD	Warehouse Delivery	Total
Branded Retail	\$ 379,748	\$ 27,906	\$ 407,654	\$ 378,462	\$ 40,978	\$ 419,440
Store Branded Retail	102,044	39,281	141,325	99,531	21,336	120,867
Non-retail and Other	165,058	87,788	252,846	168,181	86,538	254,719
Total	\$ 646,850	\$ 154,975	\$ 801,825	\$ 646,174	\$ 148,852	\$ 795,026

14. SUBSEQUENT EVENTS

The company has evaluated subsequent events since April 23, 2011, the date of these financial statements. There were no events or transactions discovered during this evaluation that require recognition or disclosure in the financial statements.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of the financial condition and results of operations of the company as of and for the sixteen week period ended April 23, 2011 should be read in conjunction with the company's Annual Report on Form 10-K for the fiscal year ended January 1, 2011.

OVERVIEW:

Flowers Foods is one of the nation's leading producers and marketers of packaged bakery foods for retail and foodservice customers. The company produces breads, buns, rolls, tortillas, snack cakes and pastries that are distributed fresh to U.S. customers in the Southeast, Mid-Atlantic, 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.

On April 11, 2011 the company announced a definitive merger agreement whereby we will acquire all the outstanding shares of Tasty Baking Company (Tasty) for \$4.00 per share in cash for a total purchase price of approximately \$165.0 million, including Tasty's indebtedness. The acquisition is expected to strengthen the company's snack cake business through the addition of the *Tastykake* snack cake brand. In addition, the company will expand our geographic reach and add two highly efficient bakeries with additional capacity to support growth. We also expect to generate operating synergies through additional revenue and cost-saving opportunities. On April 21, 2011, the company announced its tender offer for all outstanding shares of Tasty's common stock at \$4.00 per share, net to the seller in cash, without interest and less any required withholding taxes. The tender offer was made in connection with the definitive merger agreement and is scheduled to expire at midnight Philadelphia, PA time on May 19, 2011, unless extended. It is expected that this transaction will close during our fiscal second quarter.

The company also closed a manufacturing facility during the first quarter of fiscal 2011. The costs associated with closing the facility were approximately \$5.7 million, net of operational savings. Additional information is included in the *Consolidated and Segment Results* discussion below.

Sales are principally affected by pricing, quality, brand recognition, new product introductions and product line extensions, marketing and service. The company manages these factors to achieve a sales mix favoring its higher-margin branded products, while using store brand products to absorb overhead costs and maximize use of production capacity. During the first quarter of 2011, our results were impacted by the competitive landscape and high promotional activity within the baking industry. Sales for the quarter ended April 23, 2011 increased 0.9% from the quarter ended April 24, 2010. This increase was primarily due to net positive pricing and mix shifts of 2.1% and a decrease in volume of 1.2%.

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. Agricultural commodity prices reached all time high levels during 2007 and the first half of 2008 before declining during 2009. Commodity prices began to rise in the second half of 2010 and are expected to continue rising during 2011. We enter into forward purchase agreements and other derivative financial instruments qualifying for hedge accounting to reduce the impact of such volatility in raw material 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 POLICIES:

Our financial statements are prepared in accordance with generally accepted accounting principles (GAAP). These principles are numerous and complex. Our significant accounting policies are summarized in the company's Annual

Report on Form 10-K for the fiscal year ended January 1, 2011. In many instances, the application of GAAP requires management to make estimates or to apply subjective principles to particular facts and circumstances. A variance in the estimates used or a variance in the application or interpretation of GAAP could yield a materially different accounting result. Please see our Form 10-K for the fiscal year ended January 1, 2011, for a discussion of the areas where we believe that the estimates, judgments or interpretations that we have made, if different, could yield the most significant differences in our financial statements. There have been no significant changes to our critical accounting policies from those disclosed in our Form 10-K filed for the year ended January 1, 2011.

Table of Contents**RESULTS OF OPERATIONS:**

Results of operations, expressed as a percentage of sales and the dollar and percentage change from period to period, for the sixteen week periods ended April 23, 2011 and April 24, 2010, are set forth below (Dollars in thousands):

	For the sixteen weeks ended				Increase (Decrease)	
	April 23, 2011	April 24, 2010	Percentage of Sales April 23, 2011	April 24, 2010	Dollars	%
Sales						
DSD	\$ 646,850	\$ 646,174	80.7	81.3	\$ 676	0.1
Warehouse delivery	154,975	148,852	19.3	18.7	6,123	4.1
Total	\$ 801,825	\$ 795,026	100.0	100.0	\$ 6,799	0.9
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)						
DSD (1)	\$ 298,643	\$ 308,830	46.2	47.8	\$ (10,187)	(3.3)
Warehouse delivery(1)	113,615	105,968	73.3	71.2	7,647	7.2
Total	\$ 412,258	\$ 414,798	51.4	52.2	\$ (2,540)	(0.6)
Selling, distribution and administrative expenses						
DSD(1)	\$ 262,121	\$ 256,559	40.5	39.7	\$ 5,562	2.2
Warehouse delivery(1)	23,973	23,815	15.5	16.0	158	0.7
Corporate(2)	13,963	12,177			1,786	14.7
Total	\$ 300,057	\$ 292,551	37.4	36.8	\$ 7,506	2.6
Depreciation and Amortization						
DSD(1)	\$ 21,867	\$ 20,102	3.4	3.1	\$ 1,765	8.8
Warehouse delivery(1)	6,056	5,536	3.9	3.7	520	9.4
Corporate(2)	69	(1)			70	NM
Total	\$ 27,992	\$ 25,637	3.5	3.2	\$ 2,355	9.2
Income from operations						
DSD(1)	\$ 64,219	\$ 60,683	9.9	9.4	\$ 3,537	5.8
Warehouse delivery(1)	11,331	13,533	7.3	9.1	(2,202)	(16.3)
Corporate(2)	(14,032)	(12,176)			(1,857)	(15.3)
Total	\$ 61,518	\$ 62,040	7.7	7.8	\$ (522)	(0.8)

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Interest income, net	\$ 1,762	\$ 1,131	0.2	0.1	\$ 631	55.8
Income taxes	\$ 22,119	\$ 22,484	2.8	2.8	\$ (365)	(1.6)
Net income	\$ 41,161	\$ 40,687	5.1	5.1	\$ 474	1.2

1. As a percentage of revenue within the reporting segment

2. The corporate segment has no revenues

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SIXTEEN WEEKS ENDED APRIL 23, 2011 COMPARED TO SIXTEEN WEEKS ENDED APRIL 24, 2010

Consolidated Sales.

	For the Sixteen Weeks Ended April 23, 2011		For the Sixteen Weeks Ended April 24, 2010		% Increase (Decrease)
	\$ (Amounts in thousands)	%	\$ (Amounts in thousands)	%	
Branded Retail	\$ 407,654	50.8%	\$ 419,440	52.8%	(2.8)%
Store Branded Retail	141,325	17.6	120,867	15.2	16.9%
Non-retail and Other	252,846	31.6	254,719	32.0	(0.7)%
Total	\$ 801,825	100.0%	\$ 795,026	100.0%	0.9%

The 0.9% increase in sales was attributable to the following:

Percentage Point Change in Sales Attributed to:	Favorable (Unfavorable)
Pricing/Mix	2.1%
Volume	(1.2)%
Total percentage change in sales	0.9%

Sales category discussion

The decrease in branded retail sales was due primarily to volume decreases, partially offset by net pricing/mix increases. Declines in branded multi-pak cake and branded white bread were partially offset by increases in branded soft variety. The increase in store branded retail sales was due to volume increases in store branded cake as some of the company's customers introduced store branded cake programs in the prior year. The decrease in non-retail and other sales was due primarily to volume declines.

Direct-Store-Delivery Sales.

	For the Sixteen Weeks Ended April 23, 2011		For the Sixteen Weeks Ended April 24, 2010		% Increase (Decrease)
	\$ (Amounts in thousands)	%	\$ (Amounts in thousands)	%	
Branded Retail	\$ 379,748	58.7%	\$ 378,462	58.6%	0.3%
Store Branded Retail	102,044	15.8	99,531	15.4	2.5%
Non-retail and Other	165,058	25.5	168,181	26.0	(1.9)%

Total	\$ 646,850	100.0%	\$ 646,174	100.0%	0.1%
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The 0.1% increase in sales was attributable to the following:

Percentage Point Change in Sales Attributed to:	Favorable (Unfavorable)
Pricing/Mix	1.9%
Volume	(1.8)%
Total percentage change in sales	0.1%

Sales category discussion

The increase in branded retail sales was due primarily to net pricing/mix increases, partially offset by volume decreases. Growth in branded soft variety and branded cake were partially offset by decreases in branded white bread. The increase in store branded retail sales was due to volume increases in store branded white bread and store branded buns/rolls/tortillas. The decrease in non-retail and other sales was due to volume declines, partially offset by price/mix increases.

Table of Contents*Warehouse Delivery Sales.*

	For the Sixteen Weeks Ended		For the Sixteen Weeks Ended		% Increase (Decrease)
	April 23, 2011		April 24, 2010		
	\$	%	\$	%	
	(Amounts in thousands)		(Amounts in thousands)		
Branded Retail	\$ 27,906	18.0%	\$ 40,978	27.5%	(31.9)%
Store Branded Retail	39,281	25.3	21,336	14.3	84.1%
Non-retail and Other	87,788	56.7	86,538	58.2	1.4%
Total	\$ 154,975	100.0%	\$ 148,852	100.0%	4.1%

The 4.1% increase in sales was attributable to the following:

Percentage Point Change in Sales Attributed to:	Favorable
Pricing/Mix	4.1%
Volume	
Total percentage change in sales	4.1%

Sales category discussion

The decrease in branded retail sales was primarily the result of decreased multi-pak cake volume. The increase in store branded retail sales was due to volume increases in store branded cake as some of the company's customers introduced store branded cake programs in the prior year. The increase in non-retail and other sales, which include contract production and vending, was primarily due to net pricing/mix increases.

Materials, Supplies, Labor and Other Production Costs (exclusive of depreciation and amortization shown separately). The decrease as a percent of sales was primarily due to decreases in ingredient costs and sales increases. These were partially offset by costs associated with the manufacturing facility closure during the quarter, discussed in the *Overview* above, which impacted costs \$2.8 million, or 30 basis points as a percent of sales, net of operational savings.

The DSD segment's decrease as a percent of sales was primarily the result of significant decreases in ingredient costs, partially offset by costs associated with the manufacturing facility closure during the quarter of \$2.8 million, or 40 basis points as a percent of sales, net of operational savings.

The warehouse delivery segment's increase as a percent of sales was primarily a result of higher ingredient costs as a percent of sales. The higher ingredient costs were driven by increases in sweeteners, palm oil and cocoa.

Selling, Distribution and Administrative Expenses. The increase as a percent of sales was due to costs from closing the manufacturing facility which, net of operational savings, impacted it \$2.4 million, or 30 basis points, as well as higher employee-related and distribution costs as a percent of sales. Costs associated with the impending acquisition of Tasty affected selling, distribution and administrative costs \$0.8 million, or 10 basis points as a percentage of sales. These increases were partially offset by higher sales.

The DSD segment's selling, distribution and administrative expenses increased as a percent of sales primarily due to the manufacturing facility closure costs which, net of operational savings, impacted it \$2.4 million, or 40 basis points and higher employee-related and distribution costs as a percent of sales.

The warehouse delivery segment's selling, distribution and administrative expenses decreased as a percent of sales primarily due to lower broker commissions as a percent of sales.

Depreciation and Amortization. Depreciation and amortization increased primarily due to increased depreciation expense related to capital expenditures subsequent to the first quarter of fiscal 2010 and accelerated depreciation of certain assets at the closed facility.

The DSD segment's depreciation and amortization expense increased primarily due to assets placed in service subsequent to the first quarter of fiscal 2010 and accelerated depreciation of certain assets at the closed facility.

The warehouse delivery segment's depreciation and amortization expense increased primarily due to assets placed in service subsequent to the first quarter of fiscal 2010.

Income From Operations. The increase in the DSD segment's income from operations was primarily attributable to lower ingredient costs, partially offset by the manufacturing facility closure costs of \$5.7 million, net of operational savings. The decrease in the warehouse delivery segment's income from operations was primarily a result of higher ingredient costs. The increase in unallocated corporate expenses was primarily due to higher share-based payment expenses.

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Net Interest Income. The increase was related to lower interest expense on the term loan because principal payments have been made quarterly since the fourth quarter of 2008. As this loan is amortized through August 4, 2013, interest expense will decrease for the term loan. Lower amounts outstanding under the company's unsecured credit facility also contributed to the increase.

Income Taxes. The effective tax rate for the first quarter of fiscal 2011 was 35.0% compared to 35.6% in the first quarter of the prior year. The decrease in the rate is due mainly to the increase in the Section 199 qualifying production activities deduction in the current quarter compared to the prior year quarter. The difference in the effective rate and the statutory rate is primarily due to state income taxes and the Section 199 qualifying production activities deduction.

LIQUIDITY AND CAPITAL RESOURCES:

Liquidity represents our ability to generate sufficient cash flows from operating activities to meet our obligations and commitments as well as our ability to obtain appropriate financing and convert into cash those assets that are no longer required to meet existing strategic and financing objectives. Therefore, liquidity cannot be considered separately from capital resources that consist primarily of current and potentially available funds for use in achieving long-range business objectives. Currently, the company's liquidity needs arise primarily from working capital requirements, capital expenditures and stock repurchases. The company's strategy for use of its cash flow includes paying dividends to shareholders, making acquisitions, growing internally and repurchasing shares of its common stock when appropriate.

Cash Flows

Flowers Foods' cash and cash equivalents increased to \$8.7 million at April 23, 2011 from \$6.8 million at January 1, 2011. The increase resulted from \$72.6 million provided by operating activities, offset by \$26.0 million and \$44.7 million disbursed for investing activities and financing activities, respectively.

Cash Flows Provided by Operating Activities. Net cash of \$72.6 million provided by operating activities during the sixteen weeks ended April 23, 2011 consisted primarily of \$41.2 million in net income, adjusted for the following non-cash items (amounts in thousands):

Depreciation and amortization	\$ 27,992
Gain reclassified from accumulated other comprehensive income to net income	(22,919)
Stock-based compensation	5,929
Deferred income taxes	(3,268)
Provision for inventory obsolescence	410
Allowances for accounts receivable	270
Pension and postretirement plans expense	194
Other	(644)
Total	\$ 7,964

Cash provided by working capital and other activities was \$23.4 million. As of April 23, 2011, the company had \$10.9 million recorded in other current liabilities representing collateral from counterparties for hedged positions. As of January 1, 2011, the company had \$11.5 million recorded in other accrued liabilities representing collateral from counterparties for hedged positions.

Cash Flows Disbursed for Investing Activities. Net cash disbursed for investing activities during the sixteen weeks ended April 23, 2011 of \$26.0 million consisted primarily of capital expenditures of \$22.1 million. Capital expenditures in the DSD segment and the warehouse delivery segment were \$17.1 million and \$4.3 million, respectively. The company estimates capital expenditures of approximately \$90.0 million to \$100.0 million during fiscal 2011. The company also leases certain production machinery and equipment through various operating leases.

Cash Flows Disbursed for Financing Activities. Net cash disbursed for financing activities of \$44.7 million during the sixteen weeks ended April 23, 2011 consisted primarily of dividends paid of \$18.1 million, stock repurchases of \$18.0 million, and net debt repayments of \$7.5 million, partially offset by proceeds of \$1.0 million from the exercise

of stock options and the share-based payments income tax benefit of \$0.6 million.

Credit Facility and Term Loan

Credit Facility. The company has a five-year, \$250.0 million unsecured revolving loan facility (the credit facility) that expires October 5, 2012. The company may request to increase its borrowings under the credit facility up to an aggregate of \$350.0 million upon the satisfaction of certain conditions. Proceeds from the credit facility may be used for working capital and general corporate purposes, including acquisition financing, refinancing of indebtedness and share repurchases. The credit facility includes certain customary restrictions, which, among other things, require maintenance of financial covenants and limit encumbrance of assets and creation of indebtedness. Restrictive financial covenants include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. The company

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believes that, given its current cash position, its cash flow from operating activities and its available credit capacity, it can comply with the current terms of the credit facility and can meet presently foreseeable financial requirements. As of April 23, 2011 and January 1, 2011, the company was in compliance with all restrictive financial covenants under its credit facility.

Interest is due quarterly in arrears on any outstanding borrowings at a customary Eurodollar rate or the base rate plus the applicable margin. The underlying rate is defined as the rate offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranges from 0.00% to 0.30% for base rate loans and from 0.40% to 1.275% for Eurodollar loans. In addition, a facility fee ranging from 0.10% to 0.35% is due quarterly on all commitments under the credit facility. Both the interest margin and the facility fee are based on the company's leverage ratio.

Amounts outstanding under the credit facility vary daily. Changes in the gross borrowings and repayments can be caused by cash flow activity from operations, capital expenditures, acquisitions, dividends, share repurchases, tax payments, as well as derivative transactions which are part of the company's overall risk management strategy as discussed in Note 5, *Derivative Financial Instruments*, of this Form 10-Q. For the sixteen weeks ended April 23, 2011, the company borrowed \$78.5 million in revolving borrowings and repaid \$78.5 million in revolving borrowings under the credit facility. There were no outstanding borrowings under the credit facility at April 23, 2011 or January 1, 2011.

Term Loan. On August 1, 2008, the company entered into a credit agreement (term loan) with various lending parties for the purpose of completing acquisitions. The term loan provides for an amortizing \$150.0 million of borrowings through the maturity date of August 1, 2013. The term loan includes certain customary restrictions, which, among other things, require maintenance of financial covenants and limit encumbrance of assets and creation of indebtedness. Restrictive financial covenants include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. The company believes that, given its current cash position, its cash flow from operating activities and its available credit capacity, it can comply with the current terms of the term loan and can meet presently foreseeable financial requirements. As of April 23, 2011 and January 1, 2011, the company was in compliance with all restrictive financial covenants under the term loan. As of April 23, 2011 and January 1, 2011, the amounts outstanding under the term loan were \$108.8 million and \$114.4 million, respectively.

Interest is due quarterly in arrears on outstanding borrowings at a customary Eurodollar rate or the base rate plus the applicable margin. The underlying rate is defined as the rate offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranges from 0.0% to 1.375% for base rate loans and from 0.875% to 2.375% for Eurodollar loans and is based on the company's leverage ratio. Principal payments began on December 31, 2008 and are due quarterly under the term loan at an annual amortization of 10% of the principal balance for each of the first two years, 15% during the third year, 20% during the fourth year, and 45% during the fifth year. The company paid financing costs of \$0.8 million in connection with the term loan, which is being amortized over the life of the term loan.

Shelf registration. On February 8, 2011, the company filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission (SEC), which will allow the company to sell, from time to time, certain securities, including common stock, preferred stock, debt securities and/or warrants, either individually or in units, in one or more offerings. The company has no specific plans to offer the securities covered by the registration statement and is not required to offer the securities in the future pursuant to the registration statement.

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

Uses of Cash

On February 17, 2011, the Board of Directors declared a dividend of \$0.20 per share on the company's common stock that was paid on March 17, 2011 to shareholders of record on March 3, 2011. This dividend payment was \$18.1 million.

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Our Board of Directors has approved a plan that authorizes share 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. During the first quarter of fiscal 2011, 695,403 shares, at a cost of \$18.0 million of the company's common stock were purchased under the plan. From the inception of the plan through April 23, 2011, 24.9 million shares, at a cost of \$422.2 million, have been purchased.

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

As discussed in the *Overview* above, the company expects to close on the Tasty acquisition during the second quarter of fiscal 2011. The total estimated cash payments for the acquisition are approximately \$165.0 million. We expect to use cash on hand as well as cash available under our credit facility to complete the transaction.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The company uses derivative financial instruments as part of an overall strategy to manage market risk. The company uses forward, futures, swap and option contracts to hedge existing or future exposure to changes in interest rates and commodity prices. The company does not enter into these derivative financial instruments for trading or speculative purposes. If actual market conditions are less favorable than those anticipated, raw material prices could increase significantly, adversely affecting the margins from the sale of our products.

COMMODITY PRICE RISK

The company enters into commodity forward, futures and option contracts and swap agreements for wheat and, to a lesser extent, other commodities in an effort to provide a predictable and consistent commodity price and thereby reduce the impact of market volatility in its raw material and packaging prices. As of April 23, 2011, the company's hedge portfolio contained commodity derivatives with a fair value of \$23.0 million. Of this fair value, \$24.7 million is based on quoted market prices and \$(1.7) million is based on models and other valuation methods. Approximately \$18.8 million and \$4.2 million of this fair value relates to instruments that will be utilized in fiscal 2011 and fiscal 2012, respectively.

A sensitivity analysis has been prepared to quantify the company's potential exposure to commodity price risk with respect to the derivative portfolio. Based on the company's derivative portfolio as of April 23, 2011, a hypothetical ten percent increase (decrease) in commodity prices would increase (decrease) the fair value of the derivative portfolio by \$20.5 million. The analysis disregards changes in the exposures inherent in the underlying hedged items; however, the company expects that any increase (decrease) in fair value of the portfolio would be substantially offset by increases (decreases) in raw material and packaging prices.

INTEREST RATE RISK

The company entered into interest rate swaps with notional amounts of \$85.0 million, and \$65.0 million, respectively, to fix the interest rate on the \$150.0 million term loan secured on August 1, 2008 to fund the acquisitions of ButterKrust Bakery and Holsum Bakery, Inc. As of April 23, 2011, the fair value of these interest rate swaps was \$(5.6) million. All of this fair value is based on valuation models and \$(2.6) million, \$(2.5) million, and \$(0.5) million of this fair value is related to instruments expiring in 2011 through 2013, respectively.

A sensitivity analysis has been prepared to quantify the company's potential exposure to interest rate risk with respect to the interest rate swaps. As of April 23, 2011, a hypothetical ten percent increase (decrease) in interest rates would increase (decrease) the fair value of the interest rate swap by \$0.1 million. The analysis disregards changes in the exposures inherent in the underlying debt; however, the company expects that any increase (decrease) in payments under the interest rate swap would be substantially offset by increases (decreases) in interest expense.

ITEM 4. CONTROLS AND PROCEDURES**Management's Evaluation of Disclosure Controls and Procedures**

We have established and maintain a system of disclosure controls and procedures that are designed to ensure that material information relating to the company, which is required to be timely disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is accumulated and communicated to management in a timely fashion and is recorded, processed, summarized and reported within the

time periods specified by the SEC's rules and forms. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) was performed as of the end of the period covered by this quarterly report. This evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Accounting Officer (CAO). Based upon that evaluation, our CEO, CFO and CAO have concluded that these disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

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Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter ended April 23, 2011 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On July 23, 2008, a wholly-owned subsidiary of the company filed a lawsuit against Hostess Brands, Inc. (Hostess) (formerly Interstate Bakeries Corporation) in the United States District Court for the Northern District of Georgia. The complaint alleges that Hostess is infringing upon Flowers *Nature s Own* trademarks by using or intending to use the *Nature s Pride* trademark. Flowers asserts that Hostess sale or intended sale of baked goods under the *Nature s Pride* trademark is likely to cause confusion with, and likely to dilute the distinctiveness of, the *Nature s Own* mark and constitutes unfair competition and deceptive trade practices. Flowers is seeking actual damages, an accounting of Hostess profits from its sales of *Nature s Pride* products, and injunctive relief. Flowers sought summary judgment for its claims, which was denied by the court. Unless our motion for reconsideration is granted and changes that ruling, we expect this case to proceed to trial in 2011.

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

ITEM 1A. RISK FACTORS

Please refer to Part I, Item 1A., *Risk Factors*, in the company s Form 10-K for the year ended January 1, 2011 for information regarding factors that could affect the company s results of operations, financial condition and liquidity. The following changes have been made to our *Risk Factor* disclosures subsequent to the filing of the Form 10-K.

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

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

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

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

The company from time to time undertakes acquisitions or divestitures. The success of any acquisition or divestiture depends on the company s ability to identify opportunities that help us meet our strategic objectives, consummate a transaction on favorable contractual terms and achieve expected returns and other financial benefits. Acquisitions require us to efficiently integrate the acquired business to achieve the expected returns. Divestitures present operational risks to execute the transaction and may require impairment charges. Acquisition or divestiture transactions present unique financial and operational risks, including diversion of management attention from the existing core business, integrating or separating personnel and financial and other systems, and adverse affects on

exiting business relationships with suppliers and customers. In situations where acquisitions or divestitures are not successfully implemented or completed, the company's business or financial results could be negatively impacted.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Our Board of Directors has approved a plan that authorizes share 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 first quarter of fiscal 2011 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
January 2, 2011 – January 29, 2011				5,801
January 30, 2011 – February 26, 2011	60	\$ 26.31	60	5,741
February 27, 2011 – March 26, 2011	636	\$ 25.89	636	5,105
March 27, 2011 – April 23, 2011				5,105
Total	696	\$ 25.93	696	

ITEM 6. EXHIBITS

Exhibits filed as part of this report are listed in the Exhibit Index attached hereto.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FLOWERS FOODS, INC.

By: /s/ GEORGE E. DEESE

Name: George E. Deese

Title: *Chairman of the Board and
Chief Executive Officer*

By: /s/ R. STEVE KINSEY

Name: R. Steve Kinsey

Title: *Executive Vice President and
Chief Financial Officer*

By: /s/ KARYL H. LAUDER

Name: Karyl H. Lauder

Title: *Senior Vice President and
Chief Accounting Officer*

Date: May 19, 2011

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EXHIBIT INDEX

Exhibit No	Name of Exhibit
2.1	Distribution Agreement by and between Flowers Industries, Inc. and Flowers Foods, Inc., dated as of October 26, 2000 (Incorporated by reference to Flowers Foods Registration Statement on Form 10, dated December 1, 2000, File No. 1-16247).
2.2	Amendment No. 1 to Distribution Agreement, dated as of March 12, 2001, between Flowers Industries, Inc. and Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).
3.1	Restated Articles of Incorporation of Flowers Foods, Inc. as amended on May 30, 2008 (Incorporated by reference to Flowers Foods Quarterly Report on Form 10-Q, dated June 4, 2009, File No. 1-16247).
3.2	Amended and Restated Bylaws of Flowers Foods, Inc., as amended and restated on November 14, 2008 (incorporated by reference to Flowers Foods Current Report on Form 8-K dated November 18, 2008, File No. 1-16247).
4.1	Share Certificate of Common Stock of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).
4.2	Form of Indenture (Incorporated by reference to Flowers Foods Registration Statement on Form S-3, dated February 8, 2011, File No. 1-16247).
10.1	Flowers Foods, Inc. Retirement Plan No. 1, as amended and restated effective March 26, 2001 (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).
10.2	Flowers Foods, Inc. 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009 (incorporated by reference to Flowers Foods Proxy Statement on Schedule 14A, dated April 24, 2009, File No. 1-16247).
10.3	Flowers Foods, Inc. Stock Appreciation Rights Plan (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 29, 2002, File No. 1-16247).
10.4	Flowers Foods, Inc. Annual Executive Bonus Plan (Incorporated by reference to Flowers Foods Proxy Statement on Schedule 14A, dated April 24, 2009, File No. 1-16247).
10.5	Flowers Foods, Inc. Supplemental Executive Retirement Plan (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 29, 2002, File No. 1-16247).
10.6	Form of Indemnification Agreement, by and between Flowers Foods, Inc., certain executive officers and the directors of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 28, 2003, File No. 1-16247).
10.7	Form of Continuation of Employment Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 4, 2009, File No. 1016247).

- 10.8 Ninth Amendment to the Flowers Foods, Inc. Retirement Plan No. 1, dated November 7, 2005, as amended and restated effective as of March 26, 2001 (Incorporated by reference to Flowers Foods Quarterly Report on Form 10-Q dated November 17, 2005, File No. 1-16247).
- 10.9 Amended and Restated Credit Agreement, dated as of June 6, 2006, among Flowers Foods, Inc., the Lenders Party thereto from time to time, Bank of America N.A., Harris N.A. and Cooperative Centrale Raiffeisen-Boerenleen Bank, B.A., Rabobank International, New York Branch, as co-documentation agents, Suntrust Bank, as syndication agent, and Deutsche Bank AG, New York Branch, as administrative agent. (Incorporated by reference to Flowers Foods Current Report on Form 8-K dated June 7, 2006, File No. 1-16247).
- 10.10 Agreement and Plan of Merger, dated June 23, 2008, by and among, Flowers Foods, Inc., Peachtree Acquisition Co., LLC, Holsum Bakery, Inc., Lloyd Edward Eisele, Jr. and The Lloyd Edward Eisele, Jr. Revocable Trust (Incorporated by reference to Flowers Foods Current Report on Form 8-K/A dated June 25, 2008, File No. 1-16247).
- 10.11 Credit Agreement, dated as of August 1, 2008, among Flowers Foods, Inc., the Lenders Party thereto from time to time, Bank of America N.A., Cooperative Centrale Raiffeisen-Boerenleen Bank, B.A., Rabobank International, New York Branch, and Branch Banking & Trust Company as co-documentation agents, SunTrust Bank, as syndication agent, and Deutsche Bank AG, New York Branch, as administrative agent (Incorporated by reference to Flowers Foods Current Report on Form 8-K dated August 6, 2008, File No. 1-16247).

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Exhibit No	Name of Exhibit
10.12	First Amendment and Waiver, dated October 5, 2007, among Flowers Foods, Inc., a Georgia corporation, the lenders party to the Credit Agreement and Deutsche Bank AG New York Branch, as Administrative Agent. (Incorporated by reference to Flowers Foods Current Report on Form 8-K dated October 11, 2007, File No. 1-16247).
10.13	Form of 2009 Nonqualified Stock Option Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 4, 2009, File No. 1-16247).
10.14	Form of 2010 Restricted Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 3, 2010, File No. 1-16247).
10.15	Form of 2010 Nonqualified Stock Option Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 3, 2010, File No. 1-16247).
10.16	Form of 2010 Deferred Shares Agreement, by and between Flowers Foods, Inc. and certain members of the Board of Directors of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated February 23, 2011, File No. 1-16247).
10.17	Form of 2011 Restricted Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated February 23, 2011, File No. 1-16247).
10.18	Form of 2011 Nonqualified Stock Option Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated February 23, 2011, File No. 1-16247).
*21	Subsidiaries of Flowers Foods, Inc.
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.3	Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by George E. Deese, Chief Executive Officer, R. Steve Kinsey, Chief Financial Officer and Karyl H. Lauder, Chief Accounting Officer for the Quarter Ended April 23, 2011.

* Filed herewith