

FLOWERS FOODS INC
Form 10-Q
November 13, 2008

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**United States
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 October 4, 2008

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 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, non-accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

**Large accelerated
filer**

**Accelerated
filer**

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

**Smaller reporting
company**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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 NOVEMBER 7, 2008
Common Stock, \$.01 par value with Preferred Share Purchase Rights	92,746,782

**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, show, to, is expected to or will continue, or the negative of these terms or other comparable terminology. These forward-looking statements are based upon assumptions we believe are reasonable.

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

unexpected changes in any of the following: (i) general economic and business conditions; (ii) the competitive setting in which we operate, including changes in pricing, 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;

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;

customer and consumer reaction to pricing actions; and

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.

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*, in the company's Form 10-K for the year ended December 29, 2007 for additional information regarding factors that could affect the company's results of operations, financial condition and liquidity.

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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)

	OCTOBER 4, 2008	DECEMBER 29, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 17,383	\$ 19,978
Accounts and notes receivable, net of allowances of \$1,042 and \$131, respectively	171,247	137,682
Inventories, net:		
Raw materials	18,136	14,257
Packaging materials	13,813	10,809
Finished goods	26,761	22,271
	58,710	47,337
Spare parts and supplies	31,637	28,574
Deferred taxes	34,842	1,863
Other	69,385	33,800
Total current assets	383,204	269,234
Property, Plant and Equipment, net of accumulated depreciation of \$592,107 and \$556,960, respectively	591,103	486,522
Notes Receivable	92,673	88,469
Assets Held for Sale – Distributor Routes	9,692	12,396
Other Assets	29,141	32,525
Goodwill	197,938	76,338
Other Intangible Assets, net	107,645	22,051
Total assets	\$ 1,411,396	\$ 987,535
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital leases	\$ 18,832	\$ 6,920
Accounts payable	120,291	98,302
Other accrued liabilities	154,445	108,423

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Total current liabilities	293,568	213,645
Long-Term Debt and Capital Leases	276,587	22,508
Other Liabilities:		
Deferred taxes	94,356	50,974
Other	49,901	36,391
Total other liabilities	144,257	87,365
Minority Interest in Variable Interest Entity	9,167	7,802
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock \$100 par value, 200,000 authorized and none issued		
Preferred stock \$.01 par value, 800,000 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 8,913,142 shares and 9,755,350 shares, respectively	(157,799)	(154,801)
Capital in excess of par value	520,706	484,472
Retained earnings	351,222	303,386
Accumulated other comprehensive (loss) income	(27,329)	22,141
Total stockholders' equity	687,817	656,215
Total liabilities and stockholders' equity	\$ 1,411,396	\$ 987,535

(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 TWELVE WEEKS ENDED		FOR THE FORTY WEEKS ENDED	
	OCTOBER 4, 2008	OCTOBER 6, 2007	OCTOBER 4, 2008	OCTOBER 6, 2007
Sales	\$ 575,937	\$ 475,225	\$ 1,793,300	\$ 1,563,010
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)	298,792	244,321	942,356	796,215
Selling, marketing and administrative expenses	217,382	181,727	666,719	603,282
Depreciation and amortization	17,373	15,357	54,318	50,590
Gain on sale of assets			2,306	
Gain on insurance recovery		718	686	718
Income from operations	42,390	34,538	132,899	113,641
Interest expense	(1,903)	(762)	(3,077)	(2,911)
Interest income	2,914	2,747	10,242	8,761
Income before income taxes and minority interest	43,401	36,523	140,064	119,491
Income tax expense	15,519	12,788	50,012	42,202
Income before minority interest	27,882	23,735	90,052	77,289
Minority interest in variable interest entity	(467)	(1,234)	(2,905)	(4,105)
Net income	\$ 27,415	\$ 22,501	\$ 87,147	\$ 73,184
Net Income Per Common Share:				
Basic:				
Net income per share	\$ 0.30	\$ 0.25	\$ 0.95	\$ 0.81
Weighted average shares outstanding	92,407	91,113	91,919	90,788
Diluted:				
Net income per share	\$ 0.29	\$ 0.24	\$ 0.94	\$ 0.79
Weighted average shares outstanding	93,297	92,524	92,707	92,234
Cash dividends paid per common share	\$ 0.15	\$ 0.125	\$ 0.425	\$ 0.333

(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
(Unaudited)

	Comprehensive Income	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
(Amounts in thousands, except for share data)									
Balances at December 29, 2007		101,659,924	\$ 1,017	\$ 484,472	\$ 303,386	\$ 22,141	(9,755,350)	\$ (154,801)	\$ 656,215
Net income	\$ 87,147				87,147				87,147
Derivative instruments	(49,628)					(49,628)			(49,628)
Amortization of prior service costs	158					158			158
Comprehensive income	\$ 37,677								
Exercise of stock options				(1,947)			289,775	4,626	2,679
Issuance of restricted stock award				(3,984)			249,880	3,984	0
Issuance of deferred stock award				(386)			24,045	386	0
Amortization of deferred and restricted stock awards				4,669					4,669
Stock option compensation				3,354					3,354
Tax benefits related to share based awards				2,229					2,229
Stock repurchases							(1,720,148)	(44,072)	(44,072)
Issuance for acquisition				32,299			1,998,656	32,078	64,377
Dividends paid \$0.425 per common share					(39,311)				(39,311)

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Balances at
October 4,
2008

101,659,924 \$ 1,017 \$ 520,706 \$ 351,222 \$(27,329) (8,913,142) \$(157,799) \$ 687,817

(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 FORTY WEEKS ENDED	
	OCTOBER	OCTOBER 6,
	4, 2008	2007
CASH FLOWS PROVIDED BY (DISBURSED FOR) OPERATING ACTIVITIES:		
Net income	\$ 87,147	\$ 73,184
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	9,271	12,721
Depreciation and amortization	54,318	50,590
Deferred income taxes	(3,072)	(3,550)
Provision for inventory obsolescence	705	727
Allowances for accounts receivable	940	1,114
Minority interest in variable interest entity	2,905	4,105
Other	(2,483)	(1,183)
Changes in assets and liabilities:		
Accounts and notes receivable, net	(16,123)	(7,572)
Inventories, net	(8,358)	(4,940)
Other assets	(40,791)	22,418
Pension contributions		(1,000)
Accounts payable and other accrued liabilities	(35,603)	8,602
NET CASH PROVIDED BY OPERATING ACTIVITIES	48,856	155,216
CASH FLOWS PROVIDED BY (DISBURSED FOR) INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(68,470)	(47,443)
Increase of notes receivable	(4,988)	(13,011)
Acquisitions, net of cash acquired	(168,087)	
Other	3,600	1,296
NET CASH DISBURSED FOR INVESTING ACTIVITIES	(237,945)	(59,158)
CASH FLOWS PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES:		
Dividends paid	(39,311)	(30,483)
Exercise of stock options	2,679	16,885
Income tax benefit related to stock awards	1,977	7,102
Stock repurchases	(44,072)	(12,763)
Payment of financing fees	(747)	
Change in book overdraft	5,214	(8,948)
Proceeds from debt borrowings	456,000	146,500
Debt and capital lease obligation payments	(195,246)	(203,073)

NET CASH PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES	186,494	(84,780)
Net (decrease) increase in cash and cash equivalents	(2,595)	11,278
Cash and cash equivalents at beginning of period	19,978	13,914
Cash and cash equivalents at end of period	\$ 17,383	\$ 25,192

(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 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 present fairly the company s financial position, the results of its operations and its cash flows. The results of operations for the twelve and forty week periods ended October 4, 2008 and October 6, 2007 are not necessarily indicative of the results to be expected for a full year. The balance sheet at December 29, 2007 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 December 29, 2007.

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 December 29, 2007.

REPORTING PERIODS The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2008 consists of 53 weeks, with the company s quarterly reporting periods as follows: first quarter ended April 19, 2008 (sixteen weeks), second quarter ended July 12, 2008 (twelve weeks), third quarter ended October 4, 2008 (twelve weeks) and fourth quarter ending January 3, 2009 (thirteen weeks).

SEGMENTS The company consists of two business segments: direct-store-delivery (DSD), formerly referred to as Flowers Foods Bakeries Group, and warehouse delivery, formerly referred to as Flowers Foods Specialty Group. The DSD segment focuses on the production and marketing of bakery products to customers in the southeastern, southwestern and mid-Atlantic areas of the United States primarily through its direct-store-delivery system. The warehouse delivery segment produces snack cakes for sale to co-pack, retail and vending customers as well as frozen bread, rolls and buns for sale to retail and foodservice customers primarily through warehouse distribution.

SIGNIFICANT CUSTOMER Following is the effect our largest customer, Wal-Mart/Sam s Club, had on the company s sales for the twelve and forty weeks ended October 4, 2008 and October 6, 2007. No other customer accounted for 10% or more of the company s sales.

	FOR THE TWELVE WEEKS ENDED		FOR THE FORTY WEEKS ENDED	
	OCTOBER 4, 2008	OCTOBER 6, 2007	OCTOBER 4, 2008	OCTOBER 6, 2007
	(Percent of Sales)		(Percent of Sales)	
DSD	18.0%	17.7%	18.0%	17.3%
Warehouse delivery	2.5	2.5	2.6	2.6
Total	20.5%	20.2%	20.6%	19.9%

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Other comprehensive income (loss) results from derivative financial instruments and amortization of prior service costs related to the company's defined benefit and postretirement plans pursuant to Statement of Financial Accounting Standard (SFAS) No. 158, *Employers Accounting for Defined Benefit Pension and other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132R* (SFAS 158). Total comprehensive income, determined as net income adjusted by other comprehensive income (loss), was \$(15.9) million and \$37.7 million for the twelve and forty weeks ended October 4, 2008, respectively. Total comprehensive income was \$31.1 million and \$85.6 million for the twelve and forty weeks ended October 6, 2007, respectively.

During the forty weeks ended October 4, 2008, changes to accumulated other comprehensive income (loss), net of income tax, were as follows (amounts in thousands):

Accumulated other comprehensive income, December 29, 2007	\$ 22,141
Derivative transactions:	
Net deferred gains on closed contracts, net of income tax of \$(3,509)	(5,605)
Reclassified to earnings, net of income tax of \$303	485
Effective portion of change in fair value of hedging instruments, net of income tax of \$(27,863)	(44,508)
Amortization of prior service costs, net of income tax of \$95	158
Accumulated other comprehensive loss, October 4, 2008	\$ (27,329)

3. ACQUISITIONS

On August 4, 2008, the company acquired 100% of the outstanding shares of capital stock of C & G Holdings, Inc. which operates under the name ButterKrust Bakery (ButterKrust). ButterKrust manufactures fresh breads and rolls in Lakeland, Florida and its products are available throughout Florida under the *Country Hearth*, *Rich Harvest*, and *Sunbeam* brands, as well as store brands. The results of ButterKrust's operations have been included in the consolidated financial statements since August 4, 2008 and are included in the company's DSD operating segment. As a result of the acquisition, the company has added additional production capacity in the Florida market.

The aggregate purchase price was \$91.0 million in cash, including the payoff of certain indebtedness and other payments and acquisition costs. The following table presents the preliminary allocation of the acquisition cost, including professional fees and other related costs, to the assets acquired and liabilities assumed, based on their fair values (amounts in thousands):

At August 4, 2008**Purchase price:**

Cash, including acquisition costs	\$ 90,983	
Total consideration		\$ 90,983

Allocation of purchase price:

Current assets	\$ 8,214
Property, plant, and equipment	36,880
Other assets	1,591
Intangible assets	22,600
Goodwill	56,805