FLOWERS FOODS INC
Form 10-K
February 23, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

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	(IRS Employer
incorporation or organization)	Identification No.)
1919 Flowers Circle	
Thomasville, Georgia	31757
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:

(229) 226-9110

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange

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

None

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

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

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (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

Based on the closing sales price on the New York Stock Exchange on July 16, 2016 the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was $3,680,508,668.

On February 17, 2017, the number of shares outstanding of the registrant's Common Stock, $0.01 par value, was 208,904,007.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2017 Annual Meeting of Shareholders to be held May 25, 2017, which will be filed with the Securities and Exchange Commission on or about April 11, 2017, have been incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

FORM 10-K REPORT

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Forward-Looking Statements

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

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

- unexpected changes in any of the following: (i) general economic and business conditions; (ii) the competitive setting in which we operate, including advertising or promotional strategies by us or our competitors, as well as changes in consumer demand; (iii) interest rates and other terms available to us on our borrowings; (iv) energy and raw materials costs and availability and hedging counter-party risks; (v) relationships with or increased costs related to our employees 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);
- changes in consumer behavior, trends and preferences, including health and whole grain trends, and the movement toward more inexpensive store-branded products;
- the level of success we achieve in developing and introducing new products and entering new markets;
- our ability to implement new technology and customer requirements as required;
- our ability to operate existing, and any new, manufacturing lines according to schedule;
- 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;
- consolidation within the baking industry and related industries;
- changes in pricing, customer and consumer reaction to pricing actions, and the pricing environment among competitors within the industry;
- disruptions in our direct-store-delivery distribution model, including litigation or an adverse ruling by a court or regulatory or governmental body that could affect the independent contractor classifications of the independent distributors;
- increasing legal complexity and legal proceedings that we are or may become subject to;
- increases in employee and employee-related costs, including funding of pension plans;
- the credit, business, and legal risks associated with independent distributors and customers, which operate in the highly competitive retail food and foodservice industries;
- any business disruptions due to political instability, armed hostilities, incidents of terrorism, natural disasters, labor strikes or work stoppages, technological breakdowns, product contamination or the responses to or repercussions from any of these or similar events or conditions and our ability to insure against such events;
- the failure of our information technology systems to perform adequately, including any interruptions, intrusions or security breaches of such systems; 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. Refer to Part I, Item 1A., Risk Factors, of this Annual Report on Form 10-K (the “Form 10-K”) for additional information regarding factors that could affect the company’s results of operations, financial condition and liquidity.

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

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

PART I

Item 1. Business

The Company

Flowers Foods, Inc. (references to “we,” “our,” “us,” the “company,” “Flowers” or “Flowers Foods”) was founded in 1919 as a Georgia corporation when two brothers — William Howard and Joseph Hampton Flowers — opened Flowers Baking Company in Thomasville, Georgia. Flowers’ operating strategy from the beginning was to invest in efficient and technologically advanced bakeries, offer excellent baked foods, build strong brands, provide extraordinary service to customers, offer a workplace that fosters a team spirit, develop innovations to improve the business, and grow through strategic acquisitions.

Flowers is focused on opportunities for growth within the baked foods category and seeks to have its products available wherever bakery foods are sold or consumed — whether in homes, supermarkets, convenience stores, restaurants, fast food outlets, institutions, or vending machines. The company produces a wide range of breads, buns, rolls, snack cakes, and tortillas.

Segments

We manage our business by product delivery method. Our two operating segments reflect our two distinct methods of delivering products to market:

Direct-Store-Delivery Segment (the “DSD Segment”)

- Produces fresh breads, buns, rolls, tortillas and snack cakes sold primarily by a network of independent distributors to retail and foodservice customers in the following areas of the U.S.: East, South, Southwest, California, and select markets in the Midwest, Pacific Northwest, Nevada, and Colorado.
- Has a 39-bakery network with a highly developed reciprocal baking system (where bakeries can produce for its market and that of other bakeries), which results in long and efficient production runs.
- Major DSD Segment brands include Nature’s Own, Wonder, Cobblestone Bread Company, Tastykake and Dave’s Killer Bread.

Warehouse Delivery Segment (the “Warehouse Segment”)

- Produces fresh snack cakes and frozen breads and rolls.
- Delivers its products fresh or frozen to customers’ warehouses nationwide via contract carriers.
- Major brands include Mrs. Freshley’s, Alpine Valley Bread, and European Bakers.

The table below presents the sales, percent of total sales, and the number of plants by each segment:

Segment	Sales	Percent of total sales	Plants
DSD Segment	$3,284,177	84 %	39
Warehouse Segment	$642,708	16 %	10
Consolidated	$3,926,885	100 %	49

See Note 22, Segment Reporting, of Notes to Consolidated Financial Statements of this Form 10-K for more detailed financial information about our segments. Our brands are among the best known in the baking industry. Many of our DSD Segment brands have a major presence in the product categories in which they compete. They have a leading share of fresh packaged branded sales measured in both dollars and units in the major metropolitan areas we serve in Southern markets.

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Operating Strategies

Flowers Foods has focused on developing and refining operating strategies to create competitive advantages in the marketplace. We believe these operating strategies help us achieve our long-term objectives and work to build value for shareholders. Put simply, our strategies are to:

- Grow Sales. We develop new and core markets through new customers, new products, strong brands, and acquisitions. We have a three-pronged strategy for growing sales through market expansions, core markets, and acquisitions.
  - Invest Wisely. We use technology and efficiencies to be the low-cost producer of delicious bakery foods. We invest to improve the effectiveness of our bakeries, distribution networks, and information systems.
- Bake Smart. We innovate to improve processes, enhance quality, reduce costs, and conserve resources.
- Give Extraordinary Service. We go beyond the expected to meet our customers' needs.
- Appreciate the Team. We respect every individual, embrace diversity, and promote the career growth of our team members.

Strengths and core competencies

- Seasoned Team – Executive management team with an average of more than 20 years of baking industry experience
- Strong Brands – More than $3.3 billion in total branded retail sales, including vending
- Geographic Reach – Fresh products available to more than 85% of the U.S. population; frozen products available nationally
- Strong Financial Position – Driven by solid cash flows

We aim to achieve consistent and sustainable growth in sales and earnings by focusing on improvements in the operating results of our existing bakeries and, after detailed analysis, acquiring companies and properties that add value to the company. We believe this strategy has resulted in consistent and sustainable growth that builds value for our shareholders.

We regularly articulate our core business strategies to the investment community and internally to our team members, including long-term (five-year) goals. Compensation and bonus programs are linked to the company's short and long-term goals. The majority of our employees participate in an annual formula-driven, performance-based cash bonus program. In addition, certain employees participate in a long-term incentive program that provides performance-contingent common stock awards that generally vest over a two-year period. We believe these incentive programs provide both a short and long-term goal for our most senior management team and aligns their interests with those of our shareholders.

Grow Sales

This strategy encompasses specific efforts for growth through acquisitions, market expansions, product innovation, and core markets. As a leading U.S. baker, our products are available to consumers through traditional supermarkets, foodservice distributors, convenience stores, mass merchandisers, club stores, wholesalers, casual dining and quick-serve restaurants, schools, hospitals, dollar stores, and vending machines. To enhance our ability to grow sales, we develop bakery foods that meet changing consumer needs and preferences using market research and the strength of our well-established brands. We maintain and strengthen our brands in both existing and new markets by focusing on consistent product quality, a broad and diverse product line, and exceptional customer service. We expand our geographic reach through strategic acquisitions and by expanding the market reach of our existing bakeries. We believe our growth strategy has been successful, evidenced by our sales and net income compound average annual growth rate of 7.3% and 5.8%, respectively, over the last five years.

Acquisitions

Acquisitions have been an important component of our growth strategy. Since our initial public offering in 1968, we have made more than 100 acquisitions. Since 2003, we have completed 16 acquisitions that, in the aggregate, added approximately $2.0 billion in annual revenue. Our primary acquisition targets have historically been independent/regional baking companies in areas of the country where our fresh products have not had access to those markets. See Note 8, Acquisitions, of Notes to Consolidated Financial Statements of this Form 10-K for more details of each of the acquisitions described below.

Alpine Valley Bread acquisition (2015)

On October 13, 2015, the company completed the acquisition of Alpine Valley Bread Company ("Alpine"), a family-owned producer of certified organic and all natural breads in the U.S. The acquisition is intended to expand our penetration into the fast growing organic market and provide additional organic production capacity.

Dave's Killer Bread acquisition (2015)

On September 12, 2015, the company completed the acquisition of Dave's Killer Bread ("DKB"), the nation's best-selling organic bread. The DKB acquisition not only gave us the top organic bread brand in the country, it also gave our DSD Segment access to the Pacific Northwest market.

Expansion Markets

Expansion markets are defined as new DSD Segment markets entered into within the last five fiscal years. In 2011, we announced a direct-store-delivery ("DSD") market expansion goal to serve a geographical area reaching at least 75% of the U.S. population by 2016. At the end of fiscal 2016, we had exceeded that goal, expanding our population reach to approximately 85% of the U.S. population through acquisitions and expanding the market reach of existing bakeries. The chart below presents our DSD Segment geographic expansion since fiscal 2005.

Our market expansion efforts are driven by our bakery subsidiaries. They accomplish this by reaching out to new and existing retail and foodservice customers in the new territory and expanding the DSD model by creating new territories and new independent distributor partnerships.

Core Markets

Core markets are those served by our DSD Segment for more than five years. These are markets where our brands are established. Our primary growth strategy for core markets is product innovation. We strive to develop innovative, new products for both retail and foodservice customers that will drive excitement and consumers to our brands and products. In addition, in conjunction with the independent distributors, we focus on continually building relationships with both new and potential retail and foodservice customers, which helps grow sales.

Invest Wisely and Bake Smart

Throughout our history, we have devoted significant resources to automate our bakeries and improve our distribution capabilities. We believe these investments have made us one of the most efficient, low-cost producers of packaged bakery products in the United States. We believe our capital investments yield valuable long-term benefits, such as more consistent product quality and greater production volume at a lower cost per unit.

From 2012 through 2016, we invested $442.7 million in capital projects. We believe our annual capital investments have given us a competitive edge and we are committed to maintaining that advantage by investing in new technologies and improved processes.

We have established a reciprocal baking system that allows us to shift production among our DSD Segment bakeries. Because of this system, we have the flexibility to meet changing market needs, can respond effectively to hurricanes and other wide-spread

natural disasters, and be a low-cost producer and marketer of a full line of bakery products both regionally and nationally. For efficient movement of products from bakery to market, we use company-owned and leased warehouses and distribution centers.

We believe our company also invests wisely and bakes smart by:

- Engaging in research and development to create new products, improve the quality of existing products, and improve production processes and techniques.
- Developing and evaluating new processing techniques for both current and proposed product lines.
- Improving the efficiency and accuracy of our shipping logistics. We have been installing a paperless, user-directed automated shipping system at our bakeries that uses barcode labels, displays, and door scanners. The system streamlines the finished goods product flow, provides for greater accountability of finished goods received and shipped, improves order fulfillment, and minimizes shortage costs. At the end of fiscal 2016, we had installed this automated shipping system in approximately 80% of our bakeries. We expect to have this system in place in all our bakeries by the end of fiscal 2018.

Give Extraordinary Service

When it comes to our retail and foodservice partnerships, our strategy is simple: Go beyond the expected. Our bakery, sales, and corporate national account teams forge strong business relationships built on providing the best quality products at the best price when and where our customers need them. Focusing on extraordinary service helps grow sales in both core and new markets. Also critical to this strategy within our DSD Segment is the professionalism and service provided by the independent distributors who provide daily customer service and build strong retail and foodservice relationships.

Appreciate the Team

We strive to treat all our team members and associates with respect and dignity and work to maintain good relationships and open communication. We are committed to equal employment opportunities and operating our facilities under all federal and state employment laws and regulations. In addition, our subsidiaries provide:

- Fair and equitable compensation and a balanced program of benefits;
- Working conditions that promote employees' health and safety;
- Training opportunities that encourage professional development; and
- Ways for team members to discuss concerns through an open door policy, peer review program, and anonymous toll-free hotline.

We employ approximately 10,800 people. Approximately 1,220 of these employees are covered by collective bargaining agreements.

Project Centennial

In June of 2016, the company launched Project Centennial, an enterprise-wide business and operational review to evaluate opportunities to streamline our operations, drive efficiencies, and invest in strategic capabilities that we believe will strengthen our competitive position and drive profitable revenue growth. Based upon the results of this review, Flowers has begun executing on four primary strategic initiatives:

- reinvigorate the core business – invest in the growth and innovation of our core brands, streamline our brand and product portfolio, improve trade promotion management, and strengthen our partnership with distributors so they can grow their businesses;
- capitalize on product adjacencies – greater focus on growing segments of the bakery category, such as foodservice, in-store bakery, impulse items, and healthy snacking;
- reduce costs to fuel growth – reduce complexity and better leverage scale to lower costs; and
- develop leading capabilities – invest in capabilities to become a more centralized and analytics-focused company.

The company intends to transition to these primary strategies in fiscal 2017 and future periods.

Brands & Products

The company reports sales (consolidated and by segment) as branded retail, store branded retail, or non-retail and other. The non-retail and other category includes foodservice, restaurant, institutional, vending, thrift stores, and contract manufacturing. The table below presents our major brands and the geographic locations in the U.S. in which our products are available:

Brand	Availability
Nature s Own, Wonder, Cobblestone Bread Co., Dave s Killer Bread	East, South, Southwest, California, and select markets in the Midwest, Pacific Northwest, Nevada, and Colorado
Tastykake	Northeast, South, southern Midwest, Southwest, and select markets in California
Whitewheat, Betsy Ross, Butterkrust, Captain John Derst's, Home Pride, Dandee, Aunt Hattie s, Bunny, Butternut, Country Kitchen, Evangeline Maid, Holsum, Merita, Roman Meal (bread only), Sunbeam, Natural Grains, Earthgrains, and Sara Lee (California)	Available in select regional markets across the country
Alpine Valley Breads	Nationally, in select markets
Barowsky s Organics	New England
Mrs. Freshley s	Nationally, in select markets
Mi Casa	Nationally, in select markets
Frestillas	Regionally, in select markets

Brand Highlights

- Nature’s Own, including Whitewheat, is the best-selling loaf bread in the U.S., and its compound annual growth rate in retail sales since 2000 has been 9.0%. The Nature’s Own sales, at retail, were $1.0 billion for fiscal 2016.
- Nature’s Own Honey Wheat is the number one selling fresh packaged bread uniform parcel code (“UPC”) in the U.S. Nature’s Own had three of the top five UPC’s in the Fresh Packaged Bread category during the fourth quarter of fiscal 2016 (source: IRI Total US MultiOutlet).
- We launched DKB throughout our entire DSD market in April 2016. DKB is the #1 organic brand in the U.S. with retail sales of $241.8 million for fiscal 2016.

Our Warehouse Segment markets a line of specialty and organic breads and rolls under the Alpine Valley Bread brand for retail and foodservice customers. It also produces proprietary breads, buns, and rolls for specific foodservice customers. This segment’s snack cakes are sold under the Mrs. Freshley’s, Broad Street Bakery, and store brands. Warehouse Segment products are fresh and frozen and distributed nationally through retail, foodservice and vending customer warehouses.

The table below presents our sales by product mix for fiscal 2016 on a consolidated basis (internal sales data warehouse – “SDW”):

The table below presents our sales by channel for fiscal 2016 on a consolidated basis (internal sales data warehouse – "SDW"):

Marketing

We support our key brands with an advertising and marketing effort that reaches out to consumers through electronic and in-store coupons, social media (such as Facebook and Twitter), digital media (including e-newsletters to consumers), websites (our brand sites and third-party sites), event and sports marketing, on-package promotional offers and sweepstakes, and print advertising. When appropriate, we may join other sponsors with promotional tie-ins. We often focus our marketing efforts on specific products and holidays, such as hamburger and hot dog bun sales during Memorial Day, the Fourth of July, and Labor Day, and snack cakes for specific seasons.

Customers

Our top 10 customers in fiscal 2016 accounted for 46.8% of sales. During fiscal 2016, our largest customer, Walmart/Sam's Club, represented 19.6% of the company's sales. The loss of, or a material negative change in our relationship with, Walmart/Sam's Club or any other major customer could have a material adverse effect on our business. Walmart was the only customer to account for 10.0% or more of our sales during fiscal years 2016, 2015 and 2014.

Fresh baked foods' customers include mass merchandisers, supermarkets and other retailers, restaurants, quick-serve chains, food wholesalers, institutions, dollar stores, and vending companies. We also sell returned and surplus product through a system of discount bakery stores. The company currently operates 292 such stores, and reported sales of $79.9 million during fiscal 2016 from these outlets.

Our Warehouse Segment supplies national and regional restaurants, institutions and foodservice distributors, and retail in-store bakeries with breads and rolls. It also sells packaged bakery products to wholesale distributors for ultimate sale to a wide variety of food outlets. It sells packaged snack cakes primarily to customers who distribute the product nationwide through multiple channels of distribution, including mass merchandisers, supermarkets, vending outlets and convenience stores. In certain circumstances, we enter into co-packing arrangements with retail customers or other food companies, some of which are competitors.

Distribution

Distributing fresh bakery foods through a DSD model is a complex process. It involves determining appropriate order levels and delivering products from bakeries to independent distributors for sale and direct delivery to customer stores. The independent distributors are responsible for ordering products, stocking shelves, maintaining special displays, and developing and maintaining good customer relations to ensure adequate inventory and removing unsold goods.

The company has sold the majority of the distribution rights for these territories to independent distributors under long-term financing arrangements. Independent distributors, highly motivated by financial incentives from their distribution rights ownership, strive to increase sales by offering outstanding service and merchandising. Independent distributors have the opportunity to benefit directly from the enhanced value of their distribution rights resulting from higher branded sales volume.

Our DSD model is comprised of three types of territories. Independent distributors who own the rights to distribute certain brands of our fresh packaged bakery foods in defined geographic markets. Company-owned and operated territories with the distribution rights that are classified as available for sale and company owned and operated territories with the distribution rights that are classified as held and used. The table below presents the approximate number of territories used by the company on December 31, 2016:

Type of territory	Number of territories
Independent distributor distribution rights	5,128
Company owned classified as available for sale	671
Company owned classified as held and used	246
Total territories	6,045

The company has developed proprietary software on the hand-held computers that independent distributors use for ordering, transactions, and to manage their businesses. The company provides these hand-held computers to the independent distributors and charges them an administrative fee for their use. This fee is recognized as a reduction to the company's selling, distribution and administrative expense. Our proprietary software permits distributors to track and communicate inventory data to bakeries and to calculate recommended order levels based on historical sales data and recent trends. These orders are electronically transmitted to the appropriate bakery on a nightly basis. We believe this system assists us in minimizing returns of unsold goods. The fees collected for each of the last three fiscal years were as follows (amounts in thousands):

Year	Hand-held computer fees
Fiscal 2016	$ 6,544
Fiscal 2015	$ 6,790
Fiscal 2014	$ 6,561

In addition to hand-held computers, we maintain an information technology ("IT") platform that allows us to track sales, product returns, and profitability by selling location, bakery, day, and other criteria. The system provides us with daily, on-line access to sales and gross margin reports, allowing us to make prompt operational adjustments when appropriate. It also permits us to better forecast sales and improve distributors' in-store product ordering by customer. This IT platform is integral to our hand-held computers.

We also use scan-based trading technology (referred to as "pay by scan" or "PBS") to track and monitor sales and inventories more effectively. PBS allows the independent distributors to bypass the often lengthy product check-in at retail stores, which gives them more time to service customers and merchandise products. PBS also benefits retailers, who only pay suppliers for what they actually sell, or what is scanned at checkout. During the last three fiscal years PBS sales were as follows (amounts in thousands):

Year	PBS sales
Fiscal 2016	$1,273,660

Fiscal 2015	$1,245,422
Fiscal 2014	$1,206,608

Our Warehouse Segment distributes a portion of our packaged bakery snack products from a central distribution facility located near our Crossville, Tennessee snack cake bakery. We believe this centralized distribution method allows us to achieve both production and distribution efficiencies. Products coming from different bakeries are then cross-docked and shipped directly to customers' warehouses nationwide. Our frozen bread and roll products are shipped to various outside freezer facilities for distribution to our customers.

Intellectual Property

We own a number of trademarks, trade names, patents, and licenses. The company also sells products under franchised and licensed trademarks and trade names that we do not own (Sunbeam, Bunny, and Sara Lee – only in California – among others). We consider all of our trademarks and trade names important to our business since we use them to build strong brand awareness and consumer loyalty.

Raw Materials

Our primary baking ingredients are flour, sweeteners, shortening, and water. We also use paper products, such as corrugated cardboard, films and plastics to package our bakery foods. We strive to maintain diversified sources for all of our baking ingredients and packaging products. In addition, we are dependent on natural gas or propane as fuel for firing our ovens.

Commodities, such as our baking ingredients, periodically experience price fluctuations. The cost of these inputs may fluctuate widely due to government policy and regulation, weather conditions, domestic and international demand, or other unforeseen circumstances. We enter into forward purchase agreements and other derivative financial instruments in an effort to manage the impact of such volatility in raw material prices, but some organic ingredients do not offer the same hedging opportunities to reduce the impact of price volatility. Any decrease in the supply available under these agreements and instruments could increase the effective price of these raw materials to us and significantly impact our earnings.

Regulations

As a producer and marketer of food items, our operations are subject to regulation by various federal governmental agencies, including the U.S. Food and Drug Administration, the U.S. Department of Agriculture, the U.S. Federal Trade Commission, the U.S. Environmental Protection Agency, the U.S. Department of Commerce, and the U.S. Department of Labor (the “DOL”). We also are subject to the regulations of various state agencies, with respect to production processes, product quality, packaging, labeling, storage, distribution, labor, and local regulations regarding the licensing of bakeries and the enforcement of state standards and facility inspections. Under various statutes and regulations, these federal and state agencies prescribe requirements and establish standards for quality, purity, and labeling. Failure to comply with one or more regulatory requirements could result in a variety of sanctions, including monetary fines or compulsory withdrawal of products from store shelves. On August 9, 2016, the DOL notified the company that it was scheduled for a compliance review under the Fair Labor Standards Act. The company is cooperating with the DOL.

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

The cost of compliance with such laws and regulations has not had a material adverse effect on the company’s business. We believe that we are currently in material compliance with applicable federal, state and local laws and regulations.

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

Competitive Overview

The U.S. market for fresh and frozen bakery products is estimated at $35 billion at retail. This category is intensely competitive and has experienced significant change in the last several years. From a national standpoint, Flowers Foods is currently the second largest company in the U.S. fresh baking industry based on market share as presented in the following chart (internal sales data warehouse – “SDW”):

The current competitive landscape for breads and rolls in the U.S. baking industry now consists of Bimbo Bakeries USA, Flowers Foods, and Campbell Soup Company (Pepperidge Farm) along with smaller independent regional bakers, local bakeries, and retailer-owned bakeries.

There are a number of smaller regional bakers in the U.S. Some of these do not enjoy the competitive advantages of larger operations, including greater brand awareness and economies of scale in purchasing, distribution, production, information technology, advertising and marketing. However, size alone is not sufficient to ensure success in our industry. The company faces significant competition from regional and independent bakeries in certain geographic areas.

Competition in the baking industry continues to be driven by a number of factors. These include the ability to serve consolidated retail and foodservice customers, generational changes in family-owned businesses, and competitors’ promotional efforts on branded bread and store brands. Competition typically is based on product availability, product quality, brand loyalty, price, effective promotions, and the ability to target changing consumer preferences. Customer service, including frequent delivery to keep store shelves well-stocked, is an increasingly important competitive factor.

The company also faces competition from store brands that are produced either by us or our competitors. Store brands (also known as “private label”) have been offered by food retailers for decades. With the growth of mass merchandisers like Walmart and the ongoing consolidation of regional supermarkets into larger operations, store brands have become a significant competitor to the company in those areas where the company does not have the contract to produce the store brand. In general, the store brand share of retail fresh packaged bread in the U.S. accounts for approximately 24% of the dollar sales and approximately 34% of unit sales and has remained stable for the past five years.

Other Available Information

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

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

The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information about SEC registrants, including the company. You may also obtain these materials at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Except as otherwise expressly set forth herein, the information contained on our website is neither included nor incorporated by reference herein.

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

- Board Committees
- Code of Business Conduct and Ethics
- Flowers Foods Employee Code of Conduct
- Disclosure Policy
- Corporate Governance Guidelines
- Stock Ownership Guidelines
- Audit Committee Charter
- Compensation Committee Charter
- Finance Committee Charter
- Nominating/Corporate Governance Committee Charter
- Flowers Foods Supplier Code of Conduct (This document is on our website in the "Company Info" tab)

Item 1A. Risk Factors

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

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

The willingness of our customers and consumers to purchase our products may depend in part on economic conditions. Continuing or worsening economic challenges could have a negative impact on our business. Economic uncertainty may result in increased pressure to reduce the prices of some of our products, limit our ability to increase or maintain prices, and reduce sales of higher margin products or shift our product mix to low-margin products. In addition, changes in tax or interest rates, whether due to recession, financial and credit market disruptions or other reasons, could negatively impact us. If any of these events occurs, or if unfavorable economic conditions continue or worsen, our sales and profitability could be adversely affected.

Increases in costs and/or shortages of raw materials, fuels and utilities could adversely impact our profitability.

Commodities, such as flour, sweeteners, shortening, and water which are used in our bakery products, are subject to price fluctuations. The cost of these inputs may fluctuate widely due to foreign and domestic government policies and regulations, weather conditions, domestic and international demand, or other unforeseen circumstances. Any substantial change in the prices or availability of raw materials may have an adverse impact on our profitability. We enter into forward purchase agreements and other derivative financial instruments from time to time to manage the impact of such volatility in raw materials prices; however, these strategies may not be adequate to overcome increases in market prices or availability. Our failure to enter into hedging arrangements or any decrease in the availability or increase in the cost of these agreements and instruments could increase the price of these raw materials and significantly affect our earnings.

In addition, we are dependent upon natural gas or propane for firing ovens. The independent distributors and third-party transportation companies are dependent upon gasoline and diesel for their vehicles. The cost of fuel may fluctuate widely due to economic and political conditions, government policy and regulation, war, or other unforeseen circumstances. Substantial future increases in prices for, or shortages of, these fuels could have a material adverse effect on our profitability, financial condition or results of operations. There can be no assurance that we can cover these potential cost increases through future pricing actions. Also, as a result of these pricing actions, consumers could purchase less or move from purchasing high-margin products to lower-margin products.

Competition could adversely impact revenues and profitability.

The United States bakery industry is highly competitive. Our principal competitors in these categories all have substantial financial, marketing, and other resources. In most product categories, we compete not only with other widely advertised branded products, but also with store branded products that are generally sold at lower prices. Competition is based on product availability, product quality, price, effective promotions, and the ability to target changing consumer preferences. We experience price pressure from time to time due to competitors' promotional activity and other pricing efforts. This pricing pressure is particularly strong during adverse economic periods. Increased competition could result in reduced sales, margins, profits and market share.

A disruption in the operation of our DSD distribution system could negatively affect our results of operations, financial condition and cash flows.

We believe that our DSD distribution system is a significant competitive advantage. A material negative change in our relationship with the independent distributors, litigation or one or more adverse rulings by courts or regulatory or governmental bodies regarding our independent distributorship program, including actions or decisions that could affect the independent contractor classifications of the independent distributors, or an adverse judgment against the company for actions taken by the independent distributors could materially and negatively affect our financial condition, results of operations, and cash flows.

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

We rely on the success of our well-recognized brand names and we intend to maintain our strong brand recognition by continuing to devote resources to advertising, marketing and other brand building efforts. Brand value could diminish significantly due to a number of factors, including consumer perception that we have acted in an irresponsible manner, adverse publicity about our products (whether or not valid), our failure to maintain the quality of our products, the failure of our products to deliver consistently positive consumer experiences, or the products becoming unavailable to consumers. Our marketing investments may not prove successful in maintaining or increasing our market share. If we are not able to successfully maintain our brand recognition, our revenues and profitability could be adversely affected.

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

We have several large customers that account for a significant portion of sales, and the loss of one of our large customers could adversely affect our financial condition and results of operations. Our top ten customers accounted for 46.8% of sales during fiscal 2016. Our largest customer, Walmart/Sam's Club, accounted for 19.6% of sales during this period. These customers do not typically enter into long-term sales contracts, and instead make purchase decisions based on a combination of price, product quality, consumer demand, and customer service performance. At any time, they may use more of their shelf space, including space currently used for our products, for store branded products or for products from other suppliers. Additionally, our customers may face financial or other difficulties that may impact their operations and their purchases from us. Disputes with significant suppliers could also adversely affect our ability to supply products to our customers. If our sales to one or more of these customers are reduced, this reduction may adversely affect our business, financial condition or results of operations.

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

Our success depends, in part, on our ability to respond to current market trends and to anticipate the tastes and dietary habits of consumers, including concerns of consumers regarding health and wellness, obesity, product attributes, and ingredients. Introduction of new products and product extensions requires significant development and marketing investment. If our products fail to meet consumer preferences, or we fail to introduce new and improved products on a timely basis, then the return on that investment will be less than anticipated and our strategy to grow sales and profits with investments in marketing and innovation will be less successful. If we fail to anticipate, identify, or react to changes in consumer preferences, or we fail to introduce new or improved products on a timely basis we could experience reduced demand for our products, which could in turn cause our operating results to suffer.

We may be adversely impacted by the failure to successfully execute acquisitions and divestitures and integrate acquired operations.

From time to time, the company 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, including our recent acquisitions, require us to efficiently integrate the acquired business or businesses, which involves a significant degree of difficulty, including the following:

- integrating the operations and business cultures of the acquired businesses while carrying on the ongoing operations of the businesses we operated prior to the acquisitions;
- managing a significantly larger company than before consummation of the acquisitions;
- the possibility of faulty assumptions underlying our expectations regarding the prospects of the acquired businesses;
- coordinating a greater number of diverse businesses and businesses located in a greater number of geographic locations;
- attracting and retaining the necessary personnel associated with the acquisitions;
- creating uniform standards, controls, procedures, policies and information systems and controlling the costs associated with such matters; and
- expectations about the performance of acquired trademarks and brands and the fair value of such trademarks and brands.

Divestitures have operational risks that may include impairment charges. Divestitures also present unique financial and operational risks, including diversion of management attention from the existing core business, separating personnel and financial data and other systems, and adverse effects on existing business relationships with suppliers and customers.

In situations where acquisitions or divestitures are not successfully implemented or completed, or the expected benefits of such acquisitions or divestitures are not otherwise realized, the company's business or financial results could be negatively impacted.

We are subject to increasing legal complexity and could be party to litigation that may adversely affect our business.

Increasing legal complexity may continue to affect our operations and results in material ways. We are or could be subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations, securities laws, employment and personal injury claims, disputes with current or former suppliers, claims by current or former distributors, and intellectual property claims (including claims that we infringed another party's trademarks, copyrights, or patents). Inconsistent standards imposed by governmental authorities can adversely affect our business and increase our exposure to litigation. Litigation involving our independent distributor model and the independent contractor classification of the independent distributors, as well as litigation related to disclosure made by us in connection therewith, if determined adversely, could increase costs, negatively impact our business prospects and the business prospects of our distributors and subject us to incremental liability for their actions. We are also subject to the legal and compliance risks associated with privacy, data collection, protection and management, in particular as it relates to information we collect when we provide products to customers.

Changes in the Administration may impact fiscal and tax policies that may affect our business.

The new Administration has called for substantial change to fiscal and tax policies, which may include comprehensive tax reform. We cannot predict the impact, if any, of these changes to our business. However, it is possible that these changes could adversely affect our business. It is likely that some policies adopted by the new administration will benefit us and others will negatively affect us. Until we know what changes are enacted, we will not know whether in total we benefit from, or are negatively affected by, the changes.

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

If our retail and foodservice customers continue to grow larger due to consolidation in their respective industries, they may demand lower pricing and increased promotional programs. Meeting these demands could adversely affect our sales and profitability.

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

From time to time, our large customers may re-evaluate or refine their business practices and impose new or revised requirements on us, the distributors, and the customers' other suppliers. The growth of large mass merchandisers, supercenters and dollar stores, together with changes in consumer shopping patterns, have produced large, sophisticated customers with increased buying power and negotiating strength. Current trends among retailers and foodservice customers include fostering high levels of competition among suppliers, demanding new products or increased promotional programs, requiring suppliers to maintain or reduce product prices, reducing shelf space for our products, and requiring product delivery with shorter lead times. These business changes may involve inventory practices, logistics, or other aspects of the customer-supplier relationship. Compliance with requirements imposed by major customers may be costly and may have an adverse effect on our margins and profitability. However, if we fail to meet a significant customer's demands, we could lose that customer's business, which also could adversely affect our results of operations.

Our inability to execute our business strategy could adversely affect our business.

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

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

Pension, health care, and workers' compensation costs are increasing and will likely continue to do so. 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 involving labor and employment and employee benefit plans (including employee health care benefits and costs) may impact our operational results.

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

The company has noncontributory defined benefit pension plans covering certain employees maintained under the Employee Retirement Income Security Act of 1974 ("ERISA"). The funding obligations for our pension plans are impacted by the performance of the financial markets, including the performance of our common stock, which comprised approximately 12.1% of all the pension plan assets as of December 31, 2016.

If the financial markets do not provide the long-term returns that are expected, the likelihood of the company being required to make larger contributions will increase which could impact our liquidity. The equity markets can be, and recently have been, very volatile, and therefore our estimate of future contribution requirements can change dramatically in relatively short periods of time. Similarly, changes in interest rates can impact our contribution requirements. In a low interest rate environment, the likelihood of larger required contributions increases. Adverse developments in any of these areas could adversely affect our financial condition, liquidity or results of operations.

Disruption in our supply chain or distribution capabilities from political instability, armed hostilities, incidents of terrorism, natural disasters, weather or labor strikes could have an adverse effect on our business, financial condition and results of operations.

Our ability to make, move and sell products is critical to our success. Damage or disruption to our manufacturing or distribution capabilities, or the manufacturing or distribution capabilities of our suppliers due to weather, natural disaster, fire or explosion, terrorism, pandemics, labor strikes or work stoppages, or adverse outcomes in litigation involving our independent distributor model could impair our ability to manufacture or sell our products. Moreover, terrorist activity, armed conflict, political instability or natural disasters that may occur within or outside the U.S. may disrupt manufacturing, labor, and other business operations. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial conditions and results of operations.

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

We may be required to recall certain of our products should they be mislabeled, contaminated, spoiled, tampered with or damaged. We also may become involved in lawsuits and legal proceedings if it is alleged that the consumption of any of our products causes injury, illness or death. A product recall or an adverse result in any such litigation could have a material adverse effect on our operating and financial results, depending on the costs of the recall, the destruction of product inventory, competitive reaction and consumer attitudes. Even if a product liability or consumer fraud claim is unsuccessful or without merit, the negative publicity surrounding such assertions regarding our products could adversely affect our reputation and brand image. We also could be adversely affected if consumers in our principal markets lose confidence in the safety and quality of our products.

We may be adversely impacted if our information technology systems fail to perform adequately, including with respect to cybersecurity issues.

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our business data, communications, supply chain, order entry and fulfillment, and other business processes. The failure of our information technology systems (including those provided to us by third parties) to perform as we anticipate could disrupt our business and could result in billing, collecting, and ordering errors, processing inefficiencies, and the loss of sales and customers, causing our business and results of operations to suffer.

In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, security breaches or intrusions (including theft of customer, consumer or other confidential data), and viruses. If we are unable to prevent physical and electronic break-ins, cyber-attacks and other information security breaches, we may suffer financial and reputational damage, be subject to litigation or incur remediation costs or penalties because of the unauthorized disclosure of confidential information belonging to us or to our partners, customers, suppliers or employees.

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

As a producer and marketer of food items, our production processes, product quality, packaging, labeling, storage, and distribution are subject to regulation by various federal, state and local government entities and agencies. In addition, the marketing and labeling of food products has come under increased scrutiny in recent years, and the food industry has been subject to an increasing number of legal proceedings and claims relating to alleged false or deceptive marketing and labeling under federal, state or local laws or regulations. Uncertainty regarding labeling standards has led to customer confusions and legal challenges.

Compliance with federal, state and local laws and regulations is costly and time consuming. Failure to comply with, or violations of, applicable laws and the regulatory requirements of one or more of these agencies could subject us to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, any of which could result in increased operating costs and adversely affect our results of operations and financial condition. Legal proceedings or claims related to our marketing could damage our reputation and/or adversely affect our business or financial results.

Executive Offices

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

Executive Officers of Flowers Foods

The following table sets forth certain information regarding the persons who currently serve as the executive officers of Flowers Foods. Our Board of Directors (the "Board") elects our Executive Chairman of the Board for a one-year term. The Board of Directors has granted the Executive Chairman of the Board the authority to appoint the executive officers to hold office until they resign or are removed.

EXECUTIVE OFFICERS

Name, Age and Office	Business Experience
Allen L. Shiver Age 61 President and Chief Executive Officer	Mr. Shiver has been President and Chief Executive Officer of Flowers Foods since May 2013. Mr. Shiver was President of Flowers Foods from January 2010 to May 2013. Mr. Shiver previously served as Executive Vice President and Chief Marketing Officer of Flowers Foods from May 2008 to December 2009. Prior to that he served as President and Chief Operating Officer of the Warehouse Segment from April 2003 until May 2008. Prior to that, he served as President and Chief Operating Officer of Flowers Snack from July 2002 until April 2003. Prior to that time Mr. Shiver served as Executive Vice President of Flowers Bakeries from 1998 until 2002, as a Regional Vice President of Flowers Bakeries in 1998, and as President of Flowers Baking Company of Villa Rica from 1995 until 1998. Prior to that time, Mr. Shiver served in various sales and marketing positions at Flowers Bakeries.
R. Steve Kinsey Age 56 Executive Vice President and Chief Financial Officer	Mr. Kinsey has been Executive Vice President and Chief Financial Officer of Flowers Foods since May 2008. Mr. Kinsey previously served as Senior Vice President and Chief Financial Officer of Flowers Foods from September 2007 to May 2008. Prior to that he served as Vice President and Corporate Controller of Flowers Foods from June 2003 to September 2007. Prior to that he served as Corporate Controller from March 2002 to June 2003. Prior to that he served as Director of Tax of Flowers Foods from 2001 to March 2002 and at Flowers Industries from June 1998 to 2001. Mr. Kinsey served as Tax Manager of Flowers Industries from July 1994 to June 1998. Mr. Kinsey joined the company in July 1989 as a Tax Associate.
Bradley K. Alexander Age 58 Executive Vice President and Chief Operating	Mr. Alexander has been Executive Vice President and Chief Operating Officer since July 2014. Mr. Alexander previously served as President of Flowers Bakeries from May 2008 to July 2014. Prior to that time Mr. Alexander served as a Regional Vice President of Flowers Bakeries from 2003 until May 2008. Prior to that, he served in various sales, marketing and operational positions since joining the company in 1981, including bakery president and Senior Vice President of Sales and Marketing.

Officer	
Stephen R. Avera Age 60 Executive Vice President, Secretary and General Counsel	Mr. Avera has been Executive Vice President, Secretary and General Counsel of Flowers Foods since May 2008. Mr. Avera previously served as Senior Vice President, Secretary and General Counsel of Flowers Foods from September 2004 to May 2008. Prior to that, he served as Secretary and General Counsel from February 2002 until September 2004. He also served as Vice President and General Counsel of Flowers Bakeries from July 1998 to February 2002. Mr. Avera also previously served as an Associate and Assistant General Counsel of Flowers Industries from February 1986 to July 1998.
D. Keith Wheeler Age 53 President, Flowers Bakeries	Mr. Wheeler was named President of Flowers Bakeries in July 2014. Mr. Wheeler previously served as a Senior Vice President of Flowers Foods' West Coast Region from 2012 until July 2014. Prior to that time Mr. Wheeler served in various operational positions within the company, including bakery president, region controller, and director of both business systems and strategic planning.
Robert B. Hysell Age 58 President, Flowers Foodservice Group	Mr. Hysell has been President of Flowers Foodservice Group since January 2012. He previously served as Senior Vice President of Flowers Bakeries from 2011 to 2012, and prior to that served as Senior Vice President of Flowers Foods' Specialty Group from 2003 through 2010. He joined the company in 2001, initially serving as Vice President of Sales for the company's frozen pie business.
Joseph G. Tashie Age 61 President, Flowers Cake Group	Mr. Tashie has been President of Flowers Cake Group since January 2012. Mr. Tashie previously served as a Senior Vice President of Flowers Bakeries from 2002 to 2011. Prior to that time, he served in various sales, marketing, and operations positions since joining the company in 1978, including president at two Flowers bakeries.

Name, Age and Office	Business Experience
Marta Jones Turner Age 63 Executive Vice President of Corporate Relations	Ms. Jones Turner has been Executive Vice President of Corporate Relations of Flowers Foods since May 2008. Ms. Jones Turner previously served as Senior Vice President of Corporate Relations of Flowers Foods from July 2004 to May 2008. Prior to that time, she served as Vice President of Communications and Investor Relations from November 2002 until July 2004. She also served as Vice President of Public Affairs of Flowers Industries from September 1997 until November 2002 and Director of Public Relations of Flowers Industries from 1985 until 1997. Ms. Jones Turner joined the company in 1978.
Robert L. Benton, Jr. Age 59 Senior Vice President and Chief Manufacturing Officer	Mr. Benton has been Senior Vice President and Chief Manufacturing Officer of Flowers Foods, Inc. since January 2015. Mr. Benton previously served as Senior Vice President of Manufacturing and Operations Support from January 2011 until January 2015, Vice President of Manufacturing from July 2001 until January 2011, and Director of Manufacturing from August 1993 until July 2001. Prior to that time Mr. Benton served in several manufacturing and operational management positions including regional manufacturing coordinator, bakery vice president of operations, director of manufacturing, and manufacturing manager at various locations throughout the company since 1980.
H. Mark Courtney Age 56 Senior Vice President of Sales	Mr. Courtney has been Senior Vice President of Sales of Flowers Bakeries since April of 2008. Prior to that time Mr. Courtney served in various sales, marketing, and operations positions, including Executive Vice President of Flowers Snack Group. Mr. Courtney joined the company in 1983.
David A. Hubbard Age 47 Senior Vice President and Chief Information Officer	Mr. Hubbard has been Senior Vice President and Chief Information Officer of Flowers Foods since December 2012. Prior to that he served as Vice President and Chief Information Officer from October 2011 to December of 2012. He previously served as Vice President, IT Technology and Development in 2011. Prior to that time, Mr. Hubbard was the IT Director, SAP Technology and eBusiness from 2003 through early 2011.
Karyl H. Lauder	Ms. Lauder has been Senior Vice President and Chief Accounting Officer of Flowers Foods since May 2008. Ms. Lauder previously served as Vice President and Chief Accounting Officer of

Age 60 Senior Vice President and Chief Accounting Officer	Flowers Foods from September 2007 to May 2008. Ms. Lauder previously served as Vice President and Operations Controller of Flowers Foods from 2003 to 2007. Prior to that time, she served as Division Controller for Flowers Bakeries Group from 1997 to 2003. Prior to that time, Ms. Lauder served as a Regional Controller for Flowers Bakeries after serving as Controller and in other accounting supervisory positions at various bakery locations since 1978.
Craig Parr Age 47 Senior Vice President of Finance and Chief Risk Officer	Mr. Parr has been Senior Vice President of Finance and Chief Risk Officer since October 2012. Prior to joining Flowers Foods, Inc., Mr. Parr was with The Andersons, Inc. for 20 years, where he served as vice president of risk management and food ingredient supply, and in various leadership positions in accounting, treasury, quantitative analysis and purchasing.
Dan W. Stone Age 60 Senior Vice President of Logistics and Chief Integration Officer	Mr. Stone has been Senior Vice President of Logistics and Chief Integration Officer for Flowers Foods since January 2014. Mr. Stone previously served as Vice President of Logistics and Supply Chain Services from 2005 to 2014 and as Vice President of Purchasing from 2001 to 2005. Prior to that time, Mr. Stone served as Director of Purchasing from 1997 to 2001. From 1995 to mid 1997, Mr. Stone served as Division Controller for Flowers Bakeries after serving as Regional Controller from 1990 to 1995. Prior to that he served in several management positions including Executive Vice President of Operations and Controller at various bakery locations since joining the company in 1979.
Tonja Taylor Age 57 Senior Vice President of Human Resources	Ms. Taylor has been Senior Vice President of Human Resources for Flowers Foods since September 2013. Prior to that time she served as Vice President of Human Resources from 2008 until September 2013. Ms. Taylor began her career with Flowers in 1999 as Change Management Coordinator for a key information technology initiative. She joined the corporate Human Resources team in 2000 and served in various positions including Manager of Organizational Development, Director of Organizational Development, and Managing Director of Human Resources.

Item 1B. Unresolved Staff Comments.
None

Item 2. Properties
The company currently operates 49 bakeries, of which 47 are owned and two are leased. We believe our properties are in good condition, well maintained, and sufficient for our present operations. During fiscal 2016, DSD Segment facilities, taken as a whole, operated moderately above capacity and Warehouse Segment facilities operated moderately below capacity. Our production plant locations are:

DSD Segment

State	City	State	City
Alabama	Birmingham	Louisiana	New Orleans
Alabama	Opelika	Maine	Lewiston (2 locations)
Alabama	Tuscaloosa	Nevada	Henderson
Arizona	Phoenix	North Carolina	Goldsboro
Arizona	Tolleson	North Carolina	Jamestown
Arkansas	Batesville	North Carolina	Newton
California	Modesto (Leased)	Oregon	Milwaukie
Florida	Bradenton	Pennsylvania	Oxford
Florida	Jacksonville	Pennsylvania	Philadelphia (Leased)
Florida	Lakeland	Tennessee	Knoxville
Florida	Miami	Texas	Denton
Georgia	Atlanta	Texas	El Paso
Georgia	Savannah	Texas	Houston (2 locations)
Georgia	Thomasville	Texas	San Antonio
Georgia	Villa Rica	Texas	Tyler
Kansas	Lenexa	Vermont	Brattleboro
Kentucky	Bardstown	Virginia	Lynchburg
Louisiana	Baton Rouge	Virginia	Norfolk
Louisiana	Lafayette		

Warehouse Segment

State	City	State	City
Alabama	Montgomery	Kentucky	London
Arizona	Mesa (2 locations)	North Carolina	Winston-Salem
Arkansas	Texarkana	Tennessee	Cleveland
Georgia	Suwanee	Tennessee	Crossville
Georgia	Tucker		

In Thomasville, Georgia, the company leases properties that house our shared services center and information technology group, and owns our corporate offices.

Item 3. Legal Proceedings

For a description of all material pending legal proceedings, See Note 21, Commitments and Contingencies, of Notes to Consolidated Financial Statements of this Form 10-K.

Item 4. Mine Safety Disclosures

Not Applicable

PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

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

	Fiscal 2016			Fiscal 2015		
	Market Price		Dividend	Market Price		Dividend
Quarter	High	Low		High	Low	
First	$22.08	$15.64	$0.1450	$23.62	$18.66	$0.1325
Second	$19.80	$17.39	$0.1600	$23.56	$20.33	$0.1450
Third	$19.62	$14.35	$0.1600	$26.27	$20.51	$0.1450
Fourth	$20.10	$14.74	$0.1600	$27.31	$21.34	$0.1450

Holders

As of February 16, 2017, there were approximately 3,745 holders of record of our common stock.

Dividends

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following chart sets forth the amounts of securities authorized for issuance under the company’s compensation plans as of December 31, 2016 (amounts in thousands, except per share data).

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

	and Rights (a)	(b)	(c)
Equity compensation plans approved by security holders	1,846	$ 10.89	6,212
Equity compensation plans not approved by security holders	—	—	—
Total	1,846	$ 10.89	6,212

Under the company's 2014 Omnibus Equity and Incentive Compensation Plan (the "Omnibus Plan"), the Board is authorized to grant a variety of stock-based awards, including stock options, restricted stock awards and deferred stock, to its directors and certain of its employees. The number of securities set forth in column (c) above reflects securities available for issuance as stock options, restricted stock and deferred stock under the company's compensation plans. The number of shares originally available under the Omnibus Plan is 8,000,000 shares. The Omnibus Plan replaced the Flowers Foods' 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009 ("EPIP"), the Stock Appreciation Rights Plan, and the Annual Executive Bonus Plan. As a result, no additional shares will be issued under the EPIP. See Note 16, Stock-Based Compensation, of Notes to Consolidated Financial Statements of this Form 10-K for additional information on equity compensation plans.

Purchases of Equity Securities by the Issuer

The Board approved a plan that authorized share repurchases of up to 67.5 million shares of the company's common stock. In November 2014, the Board increased the company's share repurchase authorization by 7.1 million shares to a total of 74.6 million shares. At the close of the company's fourth quarter on December 31, 2016, 6.8 million shares remained available for repurchase under the existing authorization. Under the plan, the company may repurchase its common stock in open market or privately negotiated transactions or under an accelerated repurchase program 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.

From the inception of the plan through December 31, 2016, 67.8 million shares, at a cost of $630.4 million, have been purchased. The following chart sets forth the amounts of our common stock purchased by the company during the fourth quarter of fiscal 2016 under the stock repurchase plan.

Period	Total Number of Shares Purchased	Weighted Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs
October 9, 2016 — November 5, 2016	127 *	$ 15.09	127	6,789,280
November 6, 2016 — December 3, 2016	—	—	—	6,789,280
December 4, 2016 — December 31, 2016	—	—	—	6,789,280
Total	127	$ 15.09	127	

* All shares purchased by the company during the twelve weeks ended December 31, 2016 were acquired to satisfy employees' tax withholding and payment obligations in connection with the vesting of awards of performance share awards, which are repurchased by the company based on their fair market value on the vesting date.

Stock Performance Graph

The chart below is a comparison of the cumulative total return (assuming the reinvestment of all dividends paid) of our common stock, Standard & Poor's 500 Index, Standard & Poor's 500 Packaged Foods and Meats Index, and Standard & Poor's MidCap 400 Index for the period December 31, 2011 through December 31, 2016, the last day of our 2016 fiscal year.

	December 31, 2011	December 29, 2012	December 28, 2013	January 3, 2015	January 2, 2016	December 31, 2016
FLOWERS FOODS INC	100.00	124.43	177.28	163.00	187.75	181.22
S&P 500 INDEX	100.00	114.07	153.00	174.58	177.04	198.21
S&P 500 PACKAGED FOODS & MEAT INDEX	100.00	109.10	143.59	161.10	189.08	206.35
S&P MIDCAP 400 INDEX	100.00	116.02	156.63	172.65	169.02	204.07

Companies in the S&P 500 Index, the S&P 500 Packaged Foods and Meats Index, and the S&P MidCap 400 Index are weighted by market capitalization and indexed to $100 at December 31, 2011. Flowers Foods' share price is also indexed to $100 at December 31, 2011. These prices have been adjusted for stock splits.

Item 6. Selected Financial Data

The selected consolidated historical financial data presented below as of and for the fiscal years 2016, 2015, 2014, 2013, and 2012 have been derived from the audited Consolidated Financial Statements of the company. The results of operations presented below are not necessarily indicative of results that may be expected for any future period and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, and our Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in this Form 10-K (amounts in thousands, except per share data).

	For Fiscal Year				
	Fiscal 2016 52 Weeks	Fiscal 2015 52 Weeks	Fiscal 2014 53 Weeks	Fiscal 2013 52 Weeks	Fiscal 2012 52 Weeks
Statement of Income Data:					
Sales	$3,926,885	$3,778,505	$3,748,973	$3,732,616	$3,031,124
Net income	$163,776	$189,191	$175,739	$230,894	$136,121
Net income attributable to Flowers Foods, Inc. common shareholders per basic share	$0.79	$0.90	$0.84	$1.11	$0.66
Net income attributable to Flowers Foods, Inc. common shareholders per diluted share	$0.78	$0.89	$0.82	$1.09	$0.66
Cash dividends per common share	$0.6250	$0.5675	$0.4850	$0.4440	$0.4200
Balance Sheet Data:					
Total assets	$2,761,068	$2,844,051	$2,408,974	$2,504,014	$1,995,849
Long-term debt and capital lease obligations	$946,667	$930,022	$724,459	$887,740	$531,194

Notes to the Selected Financial Data table for additional context

1. During 2016, the company adopted new guidance that reclassified debt issuance costs as a reduction to the carrying amount of debt obligations and deferred tax assets and liabilities as one noncurrent amount on the Consolidated Balance Sheet. The table above presents all prior periods revised in accordance with this new guidance.
2. Fiscal 2016 includes the impact of a $6.6 million pension settlement loss, $24.9 million of impairment charges, $10.5 million of accrued legal settlements (including $0.3 million of related tax liabilities) which affect comparability, the issuance of our $400.0 million senior notes due 2026, and $1.9 million of debt issuance costs recognized as interest expense (for a loss on extinguishment of debt) at the time we paid off $367.5 million of outstanding indebtedness under two of our term loans.
3. Fiscal 2015 includes the results of DKB and Alpine as of and from the date of each acquisition.
4. During the fourth quarter of fiscal 2014, we revised net sales. Historically, certain immaterial discounts had been recorded as an expense to selling, distribution and administrative costs. These discounts are now recorded as contra revenue. These revisions were made for all periods presented in the fiscal 2014 Form 10-K.
5. Fiscal 2014 includes the impact of a $15.4 million pension settlement loss.
6. Fiscal 2013 includes the recording of a bargain purchase gain of $50.1 million at the time of the Sara Lee California acquisition.
7. Fiscal 2013 includes the results of Modesto, Sara Lee California, and the Acquired Hostess Bread Assets as of and from the date of each acquisition.

8. Fiscal 2012 includes the results of Lepage as of and from the date of the acquisition.
9. Fiscal 2012 includes the issuance of our $400.0 million senior notes due 2022.

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

The following discussion should be read in conjunction with Item 1., Business, and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in this Form 10-K. The following information contains forward-looking statements which involve certain risks and uncertainties. See Forward-Looking Statements at the beginning of this Form 10-K.

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is segregated into four sections, including:

- Executive overview — provides a summary of our operating performance and cash flows, industry trends, and our strategic initiatives.
- Critical accounting estimates — describes the accounting areas where management makes critical estimates to report our financial condition and results of operations.
- Results of operations — an analysis of the company’s consolidated results of operations for the two comparative periods presented in the Consolidated Financial Statements.
- Liquidity, capital resources and financial position — an analysis of cash flow, contractual obligations, and certain other matters affecting the company’s financial position.

MATTERS AFFECTING COMPARABILITY

Detailed below are matters affecting comparability as well as other significant events that will provide additional context while reading this discussion:

	Fiscal 2016 52 weeks	Fiscal 2015 52 weeks	Fiscal 2014 53 weeks
	(Amounts in thousands)		
Impairment of assets	$24,877	$3,771	$10,308
Facility closure costs/Gain on divestiture	—	736	(1,007)
Pension plan settlement losses	6,646	—	15,387
Acquisition-related costs	—	6,187	—
Legal settlements and related tax liabilities	10,500	—	—
Loss on extinguishment of debt	1,900	—	—
	$43,923	$10,694	$24,688

Impairment of assets. The table below details asset impairments recorded in fiscal 2016, 2015 and 2014, all of which related to assets of the DSD Segment. In fiscal 2016, we recorded asset impairment charges for certain trademarks acquired in the Lepage and Acquired Hostess Bread Assets acquisitions, primarily resulting from a brand rationalization initiative which is part of Project Centennial (discussed below). We also recorded impairments on certain assets held for sale, which were subsequently sold for proceeds of $7.4 million. Asset impairment charges recorded in fiscal 2015 related to assets held for sale and a production line that we no longer intended to use. During fiscal 2014, asset impairment charges related to certain assets held for sale and goodwill associated with our tortilla facility in Ft. Worth, Texas that we sold.

	Fiscal 2016 52 weeks	Fiscal 2015 52 weeks	Fiscal 2014 53 weeks
	(Amounts in thousands)		
Property, plant and equipment impairments	$9,877	$3,771	$7,684
Trademark impairments	15,000	—	—
Goodwill impairments	—	—	2,624
	$24,877	$3,771	$10,308

Legal settlements. In fiscal 2016, we reached agreements to settle Rehberg et al. v. Flowers Foods, Inc. and Flowers Baking Company of Jamestown, LLC, a class action lawsuit, for $9.0 million and Bokanoski et al. v. Lepage Bakeries, LLC and CK Sales Co., LLC for $1.25 million. Both settlements include attorneys' fees and remain subject to court approval. Additionally, we have accrued $0.3 million of related tax liabilities. These settlements are recorded in our DSD Segment's selling, distribution and administrative expenses in our Consolidated Statements of Income for fiscal 2016. See Note 21, Commitments and Contingencies, of Notes to Consolidated Financial Statements of this Form 10-K for additional information.

Issuance of $400.0 million of senior notes and payoff of existing term loans. On September 28, 2016, we issued $400.0 million of ten year senior notes (the "2026 notes") which bear interest at 3.50% per annum. Proceeds from the 2026 notes were used to repay debt currently outstanding under our existing term loan facilities and for general corporate purposes, including repayment of a portion of our accounts receivable securitization facility ("the facility"). Debt issuance costs of $1.9 million associated with the term loan facilities were recorded as interest expense in our fiscal 2016 results of operations. See Note 12, Debt, Lease and Other Commitments, of Notes to Consolidated Financial Statements of this Form 10-K for additional information.

Project Centennial, an enterprise-wide business and operational review. During the second quarter of fiscal 2016, we partnered with a globally recognized consulting firm to perform an enterprise-wide business and operational review to evaluate opportunities to streamline our operations, drive efficiencies and invest in strategic capabilities that we believe will strengthen our competitive position and drive profitable revenue growth. We have completed the diagnostic phase of Project Centennial and have begun the implementation phase. Consulting costs associated with the project in fiscal 2016 were $6.3 million and we anticipate costs to be in the range of $25 million to $30 million in fiscal 2017. These costs were and will continue to be reflected in the selling, distribution and administrative expenses line item of the Consolidated Statements of Income. For additional information regarding Project Centennial, see the "Executive Overview" section below.

Pension plan settlement losses. At the beginning of fiscal 2016, the company began offering retired and terminated vested pension plan participants not yet receiving their benefit payments the option to elect to receive their benefit as a single lump sum payment. Lump sum distributions paid during fiscal 2016 triggered settlement charges of $6.6 million for fiscal 2016. Additional settlement charges may be recorded in fiscal 2017 depending on the level of lump sum payment options elected by the eligible plan participants. In fiscal 2014, the company offered a one-time voluntary lump sum offer which resulted in a $15.4 million settlement loss. See Note 19, Postretirement Plans, of Notes to Consolidated Financial Statements of this Form 10-K for additional information.

Nationwide launch of Dave's Killer Bread brand. On April 25, 2016, the beginning of the second quarter of fiscal 2016, we began the national rollout of our organic, non-GMO DKB brand on our DSD network. We have completed the launch of the DKB products and as of December 31, 2016 these products were available in over 17,000 stores within our DSD geographic footprint. Sales of the DKB brand, including sales from the nationwide launch, were included in acquisition sales until the first anniversary of the acquisition on September 12, 2016. After this date, these sales were and will continue to be included in core or expansion markets (defined as markets we entered in the last five years) as determined by the market in which they are sold.

Conversion of our Tuscaloosa, Alabama bakery to organic production. At the end of the first quarter of fiscal 2016, we completed the conversion of our Tuscaloosa, Alabama plant to an all-organic production facility. We incurred start-up costs related to the conversion of approximately $2.5 million, of which $0.3 million is included in depreciation and amortization expense and the remainder is included in materials, supplies, labor and other production costs in our Consolidated Statement of Income for fiscal 2016. The plant began producing for the market at the beginning of the second quarter of fiscal 2016.

Accelerated Share Repurchase program. In fiscal 2016, we completed an accelerated share repurchase ("ASR") program, repurchasing 6.5 million shares of our common stock for $120.0 million. The ASR was funded with borrowings from our existing credit facilities and cash on hand. See Note 15, Stockholders' Equity, of Notes to Consolidated Financial Statements of this Form 10-K for additional information.

Alpine Valley Bread Company acquisition. On October 13, 2015, we completed the acquisition of Alpine, a family-owned producer of certified organic and all-natural breads in the U.S., for $121.9 million in cash and stock. Alpine has two production facilities in Mesa, Arizona and is included in the Warehouse Segment. The acquisition expands our penetration into the organic market and provides additional organic production capacity. We funded the cash portion of the purchase price for the Alpine acquisition with our existing credit facilities and also issued 481,540 shares of our common stock to fund the equity portion of the purchase price.

Dave’s Killer Bread acquisition. On September 12, 2015, we completed the acquisition of DKB for total cash payments of $282.1 million inclusive of payments for certain tax benefits. We believe the acquisition strengthens our position as the second-largest baker in the U.S. by giving us greater access to the fast growing organic bread category and expanding our geographic reach into the Pacific Northwest. DKB operates one production facility in Milwaukie, Oregon and is included in the DSD Segment. We funded the purchase price of the DKB acquisition with cash on hand and borrowings from our existing credit facilities.

Reporting Periods. The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2016 and 2015 consisted of 52 weeks. Fiscal 2014 was 53 weeks. Fiscal 2017 will consist of 52 weeks. The sales impact in our Consolidated Statements of Income for fiscal 2014 week 53 was $63.2 million. The DSD Segment and Warehouse Segment impact of week 53 was $53.4 million and $9.8 million, respectively, in fiscal 2014. The impact of week 53 to fiscal 2014 earnings per share was approximately $0.01 per share.

SUBSEQUENT EVENT

Divestiture. Subsequent to our fiscal year end, on January 14, 2017, we completed the sale of our mix plant in Cedar Rapids, Iowa, for $44.0 million, subject to finalizing a working capital adjustment. This resulted in a preliminary gain on sale in the range of approximately $31.0 million to $33.0 million which will be recognized in our results of operations in the first quarter of fiscal 2017. The mix plant was included in the Warehouse Segment. The plant's property, plant and equipment was reflected in assets held for sale in the Consolidated Balance Sheet at December 31, 2016.

EXECUTIVE OVERVIEW

We are the second largest producer and marketer of packaged bakery foods in the U.S. with fiscal 2016 sales of $3.9 billion. We operate in the highly competitive fresh bakery market and our product offerings include fresh breads, buns, rolls, snack cakes and tortillas, as well as frozen breads and rolls. Our business is managed based on delivery method of our products and we have two segments: DSD Segment and Warehouse Segment. We operate 49 plants in 18 states that produce a wide range of breads, buns, rolls, snack cakes, and tortillas. See Item 1., Business, of this Form 10-K for information regarding our segments, customers and brands, business strategies, strengths and core competencies, and competition and risks.

Summary of Operating Results, Cash Flows and Financial Condition:

Sales increased 3.9% in fiscal 2016 due to the DKB and Alpine acquisitions, both completed in the second half of fiscal 2015, and the nationwide launch of the DKB brand in our DSD markets in fiscal 2016. Sales increased 0.8% in fiscal 2015 due to the DKB and Alpine acquisitions, partially offset by the impact of the additional week in fiscal 2014.

Net income in fiscal 2016 decreased 13.4% as compared to fiscal 2015 primarily due to higher asset impairment charges, and increased legal costs attributable to ongoing and additional litigation, including distributor lawsuits, and related legal settlements. Additionally, increased consulting costs and pension settlement losses incurred in the current year negatively impacted net income in fiscal 2016, partially offset by prior year acquisition-related costs. Fiscal 2015 net income increased 7.7% largely due to both the pension settlement loss and higher asset impairment charges recorded in fiscal 2014, partially offset by the acquisition-related costs incurred in fiscal 2015.

In fiscal 2016, we generated net cash flows from operations of $346.0 million. We invested $101.7 million in capital expenditures. We converted certain of our variable rate, shorter-term debt arrangements to significantly longer-term, fixed rate debt with the issuance of the 2026 notes and the payoff of our term loans. Additionally, we extended the maturity of the facility to September 28, 2018 and reduced our total indebtedness $55.6 million. In fiscal 2016, we repurchased 6.9 million shares of our common stock for $126.3 million and paid $131.1 million in dividends to our shareholders. In fiscal 2015, we generated $318.3 million in net cash flows from operations, paid $390.2 million for the cash portion of the DKB and Alpine acquisitions, invested in capital expenditures of $90.8 million, paid dividends of $120.4 million and increased our net borrowings $247.0 million.

Industry Trends

The chart below details the sales change in dollars and units of the Fresh Packaged Breads category for the years 2014, 2015 and 2016 (year ago – "YA"):

- We hold a 14.9 dollar share of the Fresh Packaged Breads category. (Source: Flowers Custom Database – IRI Total US MultiOutlet + Convenience Store for calendar year 2016 ending 1/1/17)

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- We hold an 8.6 dollar share of the Commercial Cake category. (Source: Flowers Custom Database – IRI Total US MultiOutlet + Convenience Store for calendar year 2016 ending 1/1/17)
- We expect stable consumer demand for fresh baked bakery foods.
- The Fresh Packaged Breads category is highly competitive.
- We anticipate our growth will be driven by our organic bread brands, partially offset by softer demand for some of our other product offerings.

Project Centennial Strategic Initiatives

- Reinvigorating the core business – by refocusing and investing in core brands, streamlining our product portfolio and enhancing our partnership with independent distributors.
- Capitalizing on product adjacencies – by focusing on growing segments of the bakery category, such as foodservice, in-store bakery, impulse items and healthy snacks.
- Reducing costs to fuel growth – by reducing complexity and better leveraging scale to lower costs.
- Developing leading capabilities – by centralizing our operations and investing in technology to become a more analytics-focused company.

Our priorities are to simplify and streamline our brand assortment, provide additional tools to the independent distributors to enable them to grow their businesses, reduce costs of purchased goods and services and put in place a more efficient operating model.

Critical Accounting Estimates

The company's discussion and analysis of its results of operations and financial condition are based upon the Consolidated Financial Statements of the company, which have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). The preparation of these financial statements requires the company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, and cash flows during the reporting period. On an ongoing basis, the company evaluates its estimates, including those related to customer programs and incentives, bad debts, raw materials, inventories, long-lived assets, intangible assets, income taxes, restructuring, pensions and other post-retirement benefits, and contingencies and litigation. The company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The selection and disclosure of the company's critical accounting estimates have been discussed with the company's audit committee. Note 2, Summary of Significant Accounting Policies, of Notes to Consolidated Financial Statements of this Form 10-K includes a summary of the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. The following table lists, in no particular order of importance, areas of critical assumptions and estimates used in the preparation of the Consolidated Financial Statements. Additional detail can be found in the following notes:

Critical Accounting Estimate	Note
Revenue recognition	—
Derivative instruments	9
Long-lived assets	—
Goodwill and other intangible assets	7
Self-insurance reserves	21

Income tax expense and accruals	20
Postretirement plans	19
Stock-based compensation	16
Commitments and contingencies	21

Revenue Recognition. The company recognizes revenue from the sale of its products when title and risk of loss pass to the customer or consumer. The company records both direct and estimated reductions to gross revenue for customer programs and incentive offerings at the time the incentive is offered or at the time of revenue recognition for the underlying transaction that results in progress by the customer towards earning the incentive. These allowances include price promotion discounts, coupons, customer rebates, cooperative advertising, and product returns. Price promotion discount expense is recorded as a reduction to gross sales when the discounted product is sold to the customer. If market conditions were to decline, the company may take actions to increase incentive offerings, possibly resulting in an incremental reduction of revenue.

Derivative Instruments. The company's cost of primary raw materials is highly correlated to certain commodities markets. Commodities, such as our baking ingredients, experience price fluctuations. If actual market conditions become significantly different than those anticipated, raw material prices could increase significantly, adversely affecting our results of operations. We enter into forward purchase agreements and other derivative financial instruments qualifying for hedge accounting to manage the impact of volatility in raw material prices. The company measures the fair value of its derivative portfolio using 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. When quoted market prices for identical assets or liabilities are not available, the company bases fair value on internally developed models that use current market observable inputs, such as exchange-quoted futures prices and yield curves.

Valuation of Long-Lived Assets, Goodwill and Other Intangible Assets. The company records an impairment charge to property, plant and equipment, goodwill and intangible assets in accordance with applicable accounting standards when, based on certain indicators of impairment, it believes such assets have experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of these underlying assets could result in losses or an inability to recover the carrying value of the asset that may not be reflected in the asset's current carrying value, thereby possibly requiring impairment charges in the future. Impairment charges recorded in fiscal 2016, 2015 and 2014 are discussed above in the "Matters Affecting Comparability" section.

The company evaluates the recoverability of the carrying value of its goodwill on an annual basis or at a time when events occur that indicate the carrying value of the goodwill may be impaired using a two-step process. We have elected not to perform the qualitative approach. The first step of this evaluation is performed by calculating the fair value of the business segment, or reporting unit, with which the goodwill is associated. Our reporting units are at the segment level. Each segment consists of several components. These components are aggregated by their respective delivery method into the Warehouse Segment and DSD Segment. These segments rely on reciprocal baking among their components, cross-selling their products/brands within the segment, and utilizing the same delivery method. Marketing, research and development and capital projects are measured at the segment level. We believe these factors support our reporting unit classifications. This fair value is compared to the carrying value of the reporting unit, and if less than the carrying value, the goodwill is evaluated for potential impairment under step two. Under step two of this calculation, goodwill is measured for potential impairment by comparing the implied fair value of the reporting unit's goodwill, determined in the same manner as a business combination, with the carrying amount of the goodwill.

Our annual evaluation of goodwill impairment requires management judgment and the use of estimates and assumptions to determine the fair value of our reporting units. Fair value is estimated using standard valuation methodologies incorporating market participant considerations and management's assumptions on revenue, revenue growth rates, operating margins, discount rates, and EBITDA (defined as earnings before interest, taxes, depreciation and amortization). Our estimates can significantly affect the outcome of the test. We perform the fair value assessment using the income and market approach. We use this data to complete a separate fair value analysis for each reporting unit. Changes in our forecasted operating results and other assumptions could materially affect these estimates. This test is performed in the fourth quarter of each fiscal year unless circumstances require this analysis to be completed sooner. The income approach is tested using a sensitivity analysis to changes in the discount rate and yield a sufficient buffer to significant variances in our estimates. The estimated fair values of our reporting units exceeded our carrying values in excess of $500 million in each reporting unit in fiscal 2016. Based on management's evaluation, other than the $2.6 million impairment loss related to our Ft. Worth, Texas tortilla facility discussed above, no other impairment charges relating to goodwill were recorded for the fiscal years 2016, 2015, or 2014.

In connection with acquisitions, the company has acquired trademarks, customer lists, and non-compete agreements, a portion of which are amortizable. The company evaluates these assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The undiscounted future cash flows of each intangible asset are compared to the carrying amount, and if less than the carrying value, the intangible asset is written down to the extent the carrying amount exceeds the fair value. The fair value is computed using the same approach described above for goodwill and includes the same risks and estimates. The fair value of the trademarks could be less than our carrying value if any of our four material assumptions in our fair value analysis: (a) weighted average cost of capital; (b) long-term sales growth rates; (c) forecasted operating margins; and (d) market multiples do not meet our expectations, thereby requiring us to record an asset impairment. We use the multi-period excess earnings and relief from royalty methods to value these intangibles. The method used for impairment testing purposes is consistent with the valuation method employed at acquisition of the intangible asset. Based on management’s evaluation, no impairment charges relating to amortizable intangible assets were recorded for the fiscal years 2016, 2015, or 2014.

As of December 31, 2016, the company also owns $243.0 million of trademarks acquired in acquisitions that are indefinite-lived intangible assets not subject to amortization. The company evaluates the recoverability by comparing the fair value to the carrying value of these intangible assets on an annual basis or at a time when events occur that indicate the carrying value may be impaired. In addition, the assets are evaluated to determine whether events and circumstances continue to support an indefinite life. The fair value is compared to the carrying value of the intangible asset, and if less than the carrying value, the intangible asset is written down to fair value. As discussed above, during fiscal 2016, we recorded asset impairment charges of $15.0 million on certain indefinite-lived trademarks acquired in the Lepage and Acquired Hostess Bread Assets acquisitions and determined these trademarks no longer are deemed to have an indefinite life. We will begin amortizing these trademarks in fiscal 2017. During fiscal 2015, in conjunction with the DKB and Alpine acquisitions, we determined that the Barowsky's trademark acquired in the Lepage acquisition would be used on a more regional basis as an organic brand rather than distributed nationally, and therefore is deemed to have a finite life. We began amortizing this trademark in fiscal 2015.

There are certain inherent risks included in our expectations about the performance of acquired trademarks and brands. If we are unable to implement our growth strategies for these acquired intangible assets as expected, it could adversely impact the carrying value of the brands. The fair value of the trademarks could be less than our carrying value if any of our four material assumptions in our fair value analysis: (a) weighted average cost of capital; (b) long-term sales growth rates; (c) forecasted operating margins; and (d) market multiples do not meet our expectations, thereby requiring us to record an asset impairment. Impairment charges recorded for indefinite-lived intangible assets for fiscal 2016, 2015 and 2014 are described above in the "Matters Affecting Comparability" section.

The impairment analysis on the indefinite-lived intangible assets not subject to amortization is very sensitive to the long-term growth rates of the brand. The brands acquired in the Acquired Hostess Bread Assets have been valued based on our expectation of the timing reintroducing the brands. The company is also continually analyzing these brands to determine the expansion markets in which they will be introduced. If the timing of our expansion does not proceed as we currently anticipate, there may be additional impairments related to these brands.

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

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

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenues and expenses. Our income tax expense, deferred tax assets and liabilities, and reserve for uncertain tax benefits reflect our best assessment of future taxes to be paid in the jurisdictions in which we operate. The company records a valuation allowance to reduce its deferred tax assets if we believe it is more likely than not that some or all of the deferred assets will not be realized. While the company considers future taxable income and ongoing prudent and feasible tax strategies in assessing the need for a valuation allowance, if these estimates and assumptions change in the future, the company may be required to adjust its valuation allowance, which could result in a charge to, or an increase in, income in the period such determination is made. The company has a deferred tax asset of $4.1 million related to a federal capital loss carryforward. No valuation allowance has been recorded against the asset as we expect to fully utilize the benefit against the capital gain generated by the sale of our mix plant in Cedar Rapids, Iowa that occurred on January 14, 2017.

Periodically, we face audits from federal and state tax authorities, which can result in challenges regarding the timing and amount of income or deductions. We provide reserves for potential exposures when we consider it more likely than not that a taxing authority may take a sustainable position on a matter contrary to our position. We evaluate these reserves on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements that may impact the ultimate payment of such potential exposures. While the ultimate outcome of audits cannot be predicted with certainty, we do not currently believe that current or future audits will have a material adverse effect on our consolidated financial condition or results of operations. The company is no longer subject to federal examination for years prior to fiscal 2015.

Postretirement Plans. The company records pension costs and benefit obligations related to its defined benefit plans based on actuarial valuations. These valuations reflect key assumptions determined by management, including the discount rate, expected long-term rate of return on plan assets and mortality. Material changes in pension costs and in benefit obligations may occur in the future due to experience that is different than assumed and changes in these assumptions.

Effective January 1, 2006, the company curtailed its largest defined benefit plan ("Plan No. 1") that covered the majority of its workforce. Benefits under this plan are frozen, and no future benefits will accrue under this plan. The company assumed sponsorship of two defined benefit plans as part of the ButterKrust acquisition (2008) and a qualified defined benefit plan as part of the Tasty acquisition (2011); benefits under these plans are frozen, and no future benefits will accrue under these plans. The ButterKrust plans and the Tasty plan were merged into Plan No. 1 effective December 31, 2011 and December 31, 2012, respectively. In addition to Plan No. 1, the company sponsors an ongoing defined benefit pension plan for union employees ("Plan No. 2") and a frozen nonqualified plan covering former Tasty executives.

On January 1, 2016, the company began providing retired and terminated vested pension plan participants who have not yet started their payments the option to receive their benefit as a single lump sum payment. Participants can elect this option when they retire or when they leave the company. This change supports our long-term pension risk management strategy. Lump sum payments made in 2016 triggered $6.6 million of settlement charges. Depending on the level of lump sum payments made, additional settlement charges may be recorded in 2017.

The company recorded pension income and settlement charges on our qualified defined benefit plans and nonqualified plan in fiscal 2016, 2015 and 2014 as detailed in the table below (amounts in thousands). Settlement charges in fiscal 2016 and 2014 were triggered by lump sums paid during those fiscal years. We expect pension income of approximately $5.0 million on our qualified defined benefit plans and nonqualified plan for fiscal 2017 excluding any potential settlement losses.

	Fiscal 2016 52 weeks	Fiscal 2015 52 weeks	Fiscal 2014 53 weeks
Pension income	$(4,451)	$(5,788)	$(9,825)
Pension plan settlement losses	6,646	—	15,387
Net pension cost (income)	$2,195	$(5,788)	$5,562

In 2016, we refined the method used to estimate service cost and interest cost components of net periodic benefit costs. Historically, we estimated the service cost and interest cost components using a single weighted average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. Currently, we use a spot rate approach to estimate these components of benefit cost by applying the specific spot rates along the yield curve to the relevant projected cash flows, as we believe this provides a better estimate of service and interest costs. We considered this a change in estimate and accordingly, accounted for it on a prospective basis beginning in 2016. This change does not affect the measurement of our total benefit obligation. Refining the method used to estimate service cost and interest cost components of net periodic benefit cost reduced total fiscal 2016 cost by approximately $3.2 million.

In developing the expected long-term rate of return on plan assets at each measurement date, the company considers the plan assets' historical actual returns, targeted asset allocations, and the anticipated future economic environment and long-term performance of individual asset classes, based on the company's investment strategy. While appropriate consideration is given to recent and historical investment performance, the assumption represents management's best estimate of the long-term prospective return. Based on these factors, the long-term rate of return assumption for the plans was set at 8.0% for fiscal 2016, as compared with the average annual return on the plans' assets over the past 15 years of approximately 6.9% (net of expenses) with consistently similar asset allocations. The returns over the last five years of 8.5% have exceeded our expected return on asset estimates. We believe our asset allocation will meet our return estimates over time consistent with past performance and historical asset allocations. The plan has an average annual rate of return since inception in 1987 of 8.9% (net of expenses). The expected long-term rate of return assumption is based on a target asset allocation of 40-60% equity securities, 10-40% fixed income securities, 0-25% real estate, 0-40% other diversifying strategies (including, absolute return funds, hedged equity funds, and guaranteed insurance contracts), and 0-25% short-term investments and cash. The company regularly reviews such allocations and periodically rebalances the plan assets to the targeted allocation when considered appropriate. Pension costs do not include an explicit expense assumption and the return on assets rate reflects the long-term expected return, net of expenses. For the details of our pension plan assets, see Note 19, Postretirement Plans, of Notes to Consolidated Financial Statements of this Form 10-K.

The company utilizes the Society of Actuaries' ("SOA") published mortality tables and improvement scales in developing their best estimates of mortality. In October 2014, the SOA published final reports on their "standard" mortality table ("RP-2014") and mortality improvement scale ("MP-2014"). In 2016, the SOA published a revised mortality improvement scale ("MP-2016"). Based on an evaluation of the information released in 2016, the company updated the mortality assumptions for purposes of measuring pension benefit obligations at year-end 2016. The company will continue to use the standard mortality tables and mortality improvement scale with adjustments to the base table as applicable: 30% adjustment for Plan No. 1, blue collar adjustment for Plan No. 2 and no adjustment for the nonqualified plan. Based on an analysis of the most recent five years of actual experience for Plan No. 1 population of retirees (2011-2015), actual deaths are higher than expected based on the RP-2016 table. The resulting adjustment factor to be applied to the standard mortality rates is 30% for the RP-2016 table, meaning that standard mortality rates were increased by 30% to reflect this observed experience. Plan No. 2 is made up of union participants (or former union participants); therefore, blue collar adjustments can be applied to the RP-2016 table. The change to the mortality assumption decreased the year-end pension benefit obligations by $20.2 million.

The company determines the fair value of substantially all of its plans' assets utilizing market quotes rather than developing "smoothed" values, "market related" values, or other modeling techniques. Plan asset gains or losses in a given year are included with other actuarial gains and losses due to remeasurement of the plans' projected benefit obligations ("PBO"). If the total unrecognized gain or loss exceeds 10% of the larger of (i) the PBO or (ii) the market value of plan assets, the excess of the total unrecognized gain or loss is amortized over the expected average future lifetime of participants in the frozen pension plans. Prior service cost or credit, which represents the effect on plan liabilities due to plan amendments, is amortized over the average remaining service period of active covered employees. The total unrecognized loss and prior service cost in accumulated other comprehensive income ("AOCI") as of December 31, 2016 for the pension plans the company sponsors is $138.7 million. Amortization of this unrecognized loss and prior service cost during fiscal 2017 is expected to be approximately $6.8 million. To the extent that this unrecognized loss and prior service cost is subsequently recognized, the loss will increase the company's pension costs in the future.

A sensitivity analysis of fiscal 2016 pension costs on a pre-tax basis and year-end benefit obligations for our qualified plans is presented in the table below (amounts in thousands) to changes in the discount rate and expected long-term rate of return on plan assets ("EROA"):

	0.25%	(0.25%)	0.25%	(0.25%)
Percentage increase (decrease)	Discount Rate	Discount Rate	EROA	EROA
Estimated change in FY 2016 pension costs	$ (171)	$ 173	$ (876)	$ 876
Estimated change in FY 2016 year-end benefit obligations	$ (10,530)	$ 11,038	N/A	N/A

During 2017, the company does not anticipate making any contributions to our qualified pension plans, but does expect to pay $0.3 million in nonqualified pension benefits from corporate assets.

Stock-based compensation. Stock-based compensation expense for all share-based payment awards granted is determined based on the grant date fair value. The company recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the share-based payment award.

We grant PSAs that separately have a market and performance condition. The expense computed for the total shareholder return shares ("TSR") is fixed and recognized on a straight-line basis over the vesting period. The expense computed for the return on invested capital ("ROIC") shares can change depending on the attainment of performance condition goals. The expense for the ROIC shares can be within a range of 0% to 125% of the target. There is a possibility that this expense component will change in subsequent quarters depending on how the company performs relative to the ROIC target. The payouts for the TSR and ROIC shares to be issued in fiscal 2017 (on the 2015 awards) are estimated to be 0% and 87%, respectively. See Note 16, Stock-Based Compensation, of Notes to Consolidated Financial Statements of this Form 10-K for additional information.

Our Chief Executive Officer ("CEO") received a time-based restricted stock award of approximately $1.3 million in 2013, which will vest 100% on the fourth anniversary of the date of grant provided the CEO remains employed by the company during this time. This award is being expensed on a straight line basis over the four year vesting period.

Commitments and contingencies. The company and its subsidiaries from time to time are parties to, or targets of, lawsuits, claims, investigations and proceedings, including personal injury, commercial, contract, environmental, antitrust, product liability, health and safety and employment matters, including lawsuits related to the independent distributors, which are being handled and defended in the ordinary course of business. Loss contingencies are recorded at the time it is probable an asset is impaired or a liability has been incurred and the amount can be reasonably estimated. For litigation claims, the company considers the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the loss. Losses are recorded in selling, distribution and administrative expense in the Consolidated Statements of Income.

Results of Operations

The company's results of operations, expressed as a percentage of sales, are set forth below for fiscal 2016 and 2015 (by segment):

			Percentage of Sales		Increase (Decrease)	
	Fiscal 2016	Fiscal 2015	Fiscal 2016	Fiscal 2015	Dollars	%
	52 weeks	52 weeks	52 weeks	52 weeks		
	(Amounts in thousands, except percentages)					
Sales						
DSD Segment	$3,284,177	$3,179,348	83.6	84.1	$104,829	3.3
Warehouse Segment	642,708	599,157	16.4	15.9	43,551	7.3
Total	$3,926,885	$3,778,505	100.0	100.0	$148,380	3.9
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)						
DSD Segment(1)	$1,569,861	$1,532,738	47.8	48.2	$37,123	2.4
Warehouse Segment(1)	456,506	430,415	71.0	71.8	26,091	6.1
Total	$2,026,367	$1,963,153	51.6	52.0	$63,214	3.2
Selling, distribution and administrative expenses						
DSD Segment(1)	$1,308,935	$1,224,677	39.9	38.5	$84,258	6.9
Warehouse Segment(1)	107,599	96,742	16.7	16.1	10,857	11.2
Corporate(2)	47,702	60,108	—	—	(12,406)	(20.6)
Total	$1,464,236	$1,381,527	37.3	36.6	$82,709	6.0
Depreciation and amortization						
DSD Segment(1)	$120,009	$115,801	3.7	3.6	$4,208	3.6
Warehouse Segment(1)	20,138	16,734	3.1	2.8	3,404	20.3
Corporate(2)	722	(360)	—	—	1,082	NM
Total	$140,869	$132,175	3.6	3.5	$8,694	6.6
Pension plan settlement loss						
DSD Segment(1)	$—	$—	—	—	$—	—
Warehouse Segment(1)	—	—	—	—	—	—
Corporate(2)	6,646	—	—	—	6,646	NM
Total	$6,646	$—	0.2	—	$6,646	NM
Impairment of assets						
DSD Segment(1)	$24,877	$3,771	0.8	0.1	$21,106	NM
Warehouse Segment(1)	—	—	—	—	—	—
Corporate(2)	—	—	—	—	—	—
Total	$24,877	$3,771	0.6	0.1	$21,106	NM
Income from operations						

DSD Segment(1)	$260,495	$302,361	7.9	9.5	$(41,866)	(13.8)
Warehouse Segment(1)	58,465	55,266	9.1	9.2	3,199	5.8
Corporate(2)	(55,070)	(59,748)	—	—	4,678	7.8
Total	$263,890	$297,879	6.7	7.9	$(33,989)	(11.4)
Interest expense, net	$14,353	$4,848	0.4	0.1	$9,505	196.1
Income taxes	$85,761	$103,840	2.2	2.7	$(18,079)	(17.4)
Net income	$163,776	$189,191	4.2	5.0	$(25,415)	(13.4)
Comprehensive income	$177,293	$190,411	4.5	5.0	$(13,118)	(6.9)

1. As a percentage of revenue within the reporting segment.
2. The corporate segment has no revenues.

NM – the computation is not meaningful

Percentages may not add due to rounding.

The company's results of operations, expressed as a percentage of sales, are set forth below for fiscal 2015 and 2014 (by segment):

			Percentage of Sales		Increase (Decrease)	
	Fiscal 2015	Fiscal 2014	Fiscal 2015	Fiscal 2014	Dollars	%
	52 weeks	53 weeks	52 weeks	53 weeks		
	(Amounts in thousands, except percentages)					
Sales						
DSD Segment	$3,179,348	$3,155,607	84.1	84.2	$23,741	0.8
Warehouse Segment	599,157	593,366	15.9	15.8	5,791	1.0
Total	$3,778,505	$3,748,973	100.0	100.0	$29,532	0.8
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)						
DSD Segment(1)	$1,532,738	$1,515,536	48.2	48.0	$17,202	1.1
Warehouse Segment(1)	430,415	435,097	71.8	73.3	(4,682)	(1.1)
Total	$1,963,153	$1,950,633	52.0	52.0	$12,520	0.6
Selling, distribution and administrative expenses						
DSD Segment(1)	$1,224,677	$1,231,651	38.5	39.0	$(6,974)	(0.6)
Warehouse Segment(1)	96,742	91,652	16.1	15.4	5,090	5.6
Corporate(2)	60,108	44,986	—	—	15,122	33.6
Total	$1,381,527	$1,368,289	36.6	36.5	$13,238	1.0
Depreciation and amortization						
DSD Segment(1)	$115,801	$113,881	3.6	3.6	$1,920	1.7
Warehouse Segment(1)	16,734	15,166	2.8	2.6	1,568	10.3
Corporate(2)	(360)	(86)	—	—	(274)	NM
Total	$132,175	$128,961	3.5	3.4	$3,214	2.5
Pension plan settlement loss						
DSD Segment(1)	$—	$—	—	—	$—	—
Warehouse Segment(1)	—	—	—	—	—	—
Corporate(2)	—	15,387	—	—	(15,387)	NM
Total	$—	$15,387	—	0.4	$(15,387)	NM
Impairment of assets						
DSD Segment(1)	$3,771	$10,308	0.1	0.3	$(6,537)	NM
Warehouse Segment(1)	—	—	—	—	—	—
Corporate(2)	—	—	—	—	—	—
Total	$3,771	$10,308	0.1	0.3	$(6,537)	NM
Income from operations						
DSD Segment(1)	$302,361	$284,231	9.5	9.0	$18,130	6.4
Warehouse Segment(1)	55,266	51,451	9.2	8.7	3,815	7.4

Corporate(2)	(59,748)	(60,287)	—	—	539	0.9
Total	$297,879	$275,395	7.9	7.3	$22,484	8.2
Interest expense, net	$4,848	$7,341	0.1	0.2	$(2,493)	(34.0)
Income taxes	$103,840	$92,315	2.7	2.5	$11,525	12.5
Net income	$189,191	$175,739	5.0	4.7	$13,452	7.7
Comprehensive income	$190,411	$140,234	5.0	3.7	$50,177	35.8

1. As a percentage of revenue within the reporting segment.
2. The corporate segment has no revenues.
NM – the computation is not meaningful

Percentages may not add due to rounding.

Consolidated and Segment Results - Fiscal 2016 compared to Fiscal 2015

Sales

Consolidated

	Fiscal 2016 52 weeks		Fiscal 2015 52 weeks		
	$ (Amounts in thousands)	%	$ (Amounts in thousands)	%	% Increase
Branded retail	$2,282,892	58.1	$2,151,514	56.9	6.1
Store branded retail	582,523	14.8	571,827	15.1	1.9
Non-retail and other	1,061,470	27.1	1,055,164	28.0	0.6
Total	$3,926,885	100.0	$3,778,505	100.0	3.9

The 3.9% increase in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	(0.3)
Volume	0.2
Acquisitions (until cycled the acquisition date)	4.0
Total percentage change in sales	3.9

The overall sales increase resulted primarily from increased sales due to the DKB and Alpine acquisitions. Declines in pricing/mix were mostly in the non-retail and other category, partially offset by positive pricing/mix in the branded retail category. Branded retail sales increased due to the contribution from the DKB and Alpine acquisitions, the national rollout of the DKB brand, sales growth in our expansion markets (defined as new markets we entered into in the last five years) and positive pricing/mix. Partially offsetting the increase was softer sales for other branded retail products, most significantly branded soft variety bread, due to softness in the packaged bread category and reductions in the company's promotional activities in the first half of fiscal 2016. Increases in sales of store branded variety bread, cake and buns and rolls resulted in the increase in the store branded retail category. The modest increase in non-retail and other sales, which include contract manufacturing, vending and foodservice, was primarily due to volume increases in foodservice and vending, mostly offset by decreases in pricing/mix.

DSD Segment

	Fiscal 2016 52 weeks $ (Amounts in thousands)	%	Fiscal 2015 52 weeks $ (Amounts in thousands)	%	% Increase (Decrease)
Branded retail	$2,113,595	64.4	$2,011,433	63.3	5.1
Store branded retail	464,705	14.1	457,467	14.4	1.6
Non-retail and other	705,877	21.5	710,448	22.3	(0.6)
Total	$3,284,177	100.0	$3,179,348	100.0	3.3

The 3.3% increase in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	0.7
Volume	(1.0)
Acquisition (until cycled the acquisition date)	3.6
Total percentage change in sales	3.3

Sales from the DKB acquisition drove the overall sales increase in the DSD Segment, partially offset by softer volume for other products due to the company's reduced promotional activity in the first half of fiscal 2016 and overall softness in the packaged bread category. Branded retail sales increased due to the contribution from the DKB acquisition, the national rollout of the DKB brand, sales growth in our expansion markets and positive pricing/mix. Softer volume for other branded retail products, with the largest decline in branded soft variety bread, partially offset the increase. The increase in store branded retail sales was due primarily to volume increases in store branded variety bread and buns and rolls. The modest decrease in non-retail and other sales, which include contract manufacturing, vending and foodservice, was primarily due to volume declines.

Warehouse Segment

	Fiscal 2016 52 weeks		Fiscal 2015 52 weeks		
	$ (Amounts in thousands)	%	$ (Amounts in thousands)	%	% Increase
Branded retail	$169,297	26.3	$140,081	23.4	20.9
Store branded retail	117,818	18.3	114,360	19.1	3.0
Non-retail and other	355,593	55.4	344,716	57.5	3.2
Total	$642,708	100.0	$599,157	100.0	7.3

The 7.3% increase in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	(2.5)
Volume	3.9
Acquisition (until cycled the acquisition date)	5.9
Total percentage change in sales	7.3

The Warehouse Segment’s sales increased significantly due to sales from the Alpine acquisition and to a lesser extent, volume growth in the non-retail and other category, partially offset by negative pricing/mix. Pricing/mix declined largely due to lower foodservice pricing. Branded retail sales increased due to the Alpine acquisition and less significantly to growth in bakery deli sales, partially offset by declines in branded cake. Increases in sales of store branded cake drove the increase in the store branded retail category. The increase in non-retail and other sales, which include contract manufacturing, vending and foodservice, was mainly due to growth in foodservice sales, due to new foodservice products for certain of our customers, and in vending, partially offset by negative pricing/mix.

Materials, Supplies, Labor, and Other Production Costs (exclusive of depreciation and amortization shown separately; as a percent of sales)

Consolidated

Line item component	Fiscal 2016 % of sales	Fiscal 2015 % of sales	Increase (Decrease) as a % of sales
Ingredients	24.5	25.3	(0.8)
Workforce-related costs	14.5	14.1	0.4
Packaging	4.4	4.7	(0.3)
Utilities	1.5	1.6	(0.1)
Other	6.7	6.3	0.4
Total	51.6	52.0	(0.4)

Ingredient costs were lower as a percent of sales mainly due to lower prices for non-organic flour, oils and eggs and increased outside purchases of product (sales with no associated ingredient costs), partially offset by increases in sweetener prices and increased purchases of higher priced organic ingredients due to the DKB and Alpine acquisitions. Outside purchases of products are included in the other line item above and the increase largely relates to purchases of certain DKB products from co-manufacturers due to capacity constraints and to a lesser extent outside purchases for other products. As of the end of fiscal 2016, outside purchases of product had decreased considerably because of the additional organic production capacity provided by the Alpine plant and the Tuscaloosa, Alabama plant, which began producing organic bread at the beginning of the second quarter of fiscal 2016. The increase in workforce-related costs as a percent of sales was mainly due to wage increases on softer non-acquisition related sales and costs associated with the organic plant conversion, partially offset by increases in outside purchases of product (sales with no associated workforce-related costs). Lower packaging costs as a percent of sales mainly resulted from lower resin and paperboard prices and a shift in mix from cake to bread items.

Commodities, such as our baking ingredients, periodically experience price fluctuations. The cost of these inputs may fluctuate widely due to government policy and regulation, weather conditions, domestic and international demand, or other unforeseen circumstances. We enter into forward purchase agreements and other derivative financial instruments in an effort to manage the impact of such volatility in raw material prices. Any decrease in the availability of these agreements and instruments could increase the effective price of these raw materials to us and significantly affect our earnings.

DSD Segment

Line item component	Fiscal 2016 % of sales	Fiscal 2015 % of sales	Increase (Decrease) as a % of sales
Ingredients	21.7	22.7	(1.0)
Workforce-related costs	12.6	12.3	0.3
Packaging	3.1	3.3	(0.2)
Utilities	1.4	1.5	(0.1)
Other	9.0	8.4	0.6
Total	47.8	48.2	(0.4)

The decrease in ingredient costs as a percent of sales for the DSD Segment was attributable to lower pricing on non-organic flour, oils and eggs, and increases in purchases of product from the Warehouse Segment and from co-manufacturers due to capacity constraints (sales with no associated ingredient costs), partially offset by higher sweetener prices. The increase in the other line item reflects these product purchases, largely for certain DKB products. As discussed above, by the end of fiscal 2016, outside purchases for the DKB products had declined significantly due to the added production capacity provided by our Tuscaloosa, Alabama plant and the Alpine plant in the Warehouse Segment. Wage increases on lower non-acquisition related sales and costs related to converting the Tuscaloosa, Alabama plant to an organic facility, drove the increase in workforce-related costs as a percent of sales, partially offset by increased outside and intercompany purchases of product (sales with no associated workforce-related costs).

Warehouse Segment

Line item component	Fiscal 2016 % of sales	Fiscal 2015 % of sales	Increase (Decrease) as a % of sales
Ingredients	39.0	38.8	0.2
Workforce-related costs	23.9	23.7	0.2

Packaging	11.0	11.6	(0.6)
Utilities	1.7	1.8	(0.1)
Other	(4.6)	(4.1)	(0.5)
Total	71.0	71.8	(0.8)

The Warehouse Segment's increase in ingredient costs as a percent of sales was mostly due to increased purchases of higher priced organic ingredients due to the DKB and Alpine acquisitions, price increases for sweeteners and increased sales of product to the DSD Segment (ingredient costs with no associated sales). Partially offsetting the increase was lower prices for non-organic flour, eggs and oil and increases in outside purchases of product (sales with no associated ingredient costs). Packaging costs decreased as a percent of sales primarily due to significantly lower packaging costs for Alpine products relative to the Warehouse Segment as a whole and lower paperboard prices. The other line item reflects the increased intercompany sales of product to the DSD Segment, largely the DKB products, somewhat offset by the increase in outside purchases of product.

Selling, Distribution and Administrative Expenses (as a percent of sales)

Consolidated

Line item component	Fiscal 2016 % of sales	Fiscal 2015 % of sales	Increase (Decrease) as a % of sales
Workforce-related costs	17.7	17.1	0.6
Distributor distribution fees	12.7	13.4	(0.7)
Other	6.9	6.1	0.8
Total	37.3	36.6	0.7

Workforce-related costs increased as a percent of sales primarily due to a smaller portion of sales being sold via independent distributors in the current year as compared to the prior year, partially offset by lower employee incentive costs. The distributor distribution fees decrease correlates to the increase in workforce-related costs. Significantly higher legal and consulting costs as well as increased marketing for the DKB and Alpine brands caused the increase in the other line item component, partially offset by prior year acquisition-related costs of $6.2 million. Legal costs increased primarily due to the ongoing and additional distributor lawsuits, and two legal settlements totaling $10.25 million recorded in the current year. See Note 21, Commitments and Contingencies, of Notes to Consolidated Financial Statements of this Form 10-K for additional information. As discussed in the “Matters Affecting Comparability” section above, consulting costs associated with Project Centennial were $6.3 million in the current year and we expect these costs to significantly increase in fiscal 2017.

DSD Segment

Line item component	Fiscal 2016 % of sales	Fiscal 2015 % of sales	Increase (Decrease) as a % of sales
Workforce-related costs	17.8	17.1	0.7
Distributor distribution fees	15.1	15.9	(0.8)
Other	7.0	5.5	1.5
Total	39.9	38.5	1.4

The increase in workforce-related costs as a percentage of sales was due to a smaller portion of sales being sold via independent distributors in the current year as compared to the prior year resulting in the decrease in distributor distribution fees as a percent of sales. The increase in workforce-related costs was somewhat offset by lower employee incentive costs. The increase in the other line item as a percentage of sales was primarily a result of significantly higher legal costs related to the distributor lawsuits and $10.25 million of legal settlements discussed above, and increased corporate overhead charges to the DSD Segment.

Warehouse Segment

Line item component	Fiscal 2016 % of sales	Fiscal 2015 % of sales	Increase (Decrease) as a % of sales
Workforce-related costs	7.9	7.9	—
Freezer storage/rent	2.0	2.1	(0.1)
Distribution costs (includes freight and shipping and hauling)	2.1	2.1	—
Other	4.7	4.0	0.7
Total	16.7	16.1	0.6

Higher marketing costs as a percent of sales drove the increase in the other line item, mainly attributable to promotional spending for the Alpine brand, as well as increased corporate overhead charges to the Warehouse Segment.

Depreciation and Amortization Expense

Depreciation and amortization expense increased in dollars and as a percent of sales due primarily to amortizing the DKB (included in the DSD Segment) and Alpine (included in the Warehouse Segment) intangible assets which were acquired in the third and fourth quarter of fiscal 2015, respectively. We expect amortization expense to be $3.0 million higher in fiscal 2017 primarily due to reclassifying $156.0 million of indefinite-lived trademarks to finite-lived at the end of fiscal 2016.

The DSD Segment's depreciation and amortization expense increased in dollars primarily due to the amortization of the acquired DKB intangible assets, partially offset by lower depreciation expense.

The Warehouse Segment's depreciation and amortization expense increase in dollars and as a percent of sales was mostly due to amortization of the acquired Alpine intangible assets.

Pension Plan Settlement Loss

We recorded settlement charges of $6.6 million during fiscal 2016 related to our pension risk mitigation plan. Refer to the Pension plan settlement losses discussion in the "Matters Affecting Comparability" section above for additional details.

Impairment of Assets

We recorded impairment of assets of $24.9 million and $3.8 million during fiscal 2016 and 2015, respectively, related to assets in the DSD Segment. Refer to the Impairment of assets discussion in the "Matters Affecting Comparability" section above for additional details.

Income from Operations

Operating income (loss)	Favorable (Unfavorable) Percentage	Decrease as a % of Sales
DSD Segment	(13.8)	(1.6)
Warehouse Segment	5.8	(0.1)
Unallocated corporate	7.8	NA
Consolidated	(11.4)	(1.2)

NA Not applicable as the corporate segment has no revenues.

The unfavorable decrease in the DSD Segment's income from operations was largely attributable to the higher asset impairment charges, increased legal costs and related settlements, and higher corporate overhead charges in the current year as compared to the prior year. The Warehouse Segment's operating income was relatively consistent with the prior year as a percent of sales. The favorable change in unallocated corporate expenses was mostly due to increased overhead charges to the segments in the current year and $6.2 million of acquisition-related costs incurred in the prior year, partially offset by pension plan settlement losses of $6.6 million and Project Centennial consulting costs both incurred in the current year. In the prior year, unanticipated legal costs were not allocated to the segments, but instead were absorbed at the corporate level.

Net Interest Expense

The increase in net interest expense resulted from higher average amounts outstanding under the company’s debt arrangements during the current fiscal year and to a lesser extent decreased interest income in fiscal 2016 due to lower average distributor notes receivable outstanding during the current fiscal year. Additionally, we expensed $1.9 million of debt issuance costs associated with our existing term loans that were paid off prior to maturity with the proceeds from the issuance of the 2026 notes.

Income Taxes

The effective tax rate for fiscal 2016 and fiscal 2015 was 34.4% and 35.4%, respectively. The decrease in the rate was primarily related to an increase in the Section 199 qualifying production activities benefit. The most significant differences in the effective rate and the statutory rate were additions for state income taxes and the benefit for Section 199 qualifying production activities deduction. Financial Accounting Standards Board (“FASB”) guidance requiring tax windfalls and shortfalls related to employee share-based payment awards to be recognized as income tax expense (benefit) at vesting of these awards will be effective for the company as of the beginning of fiscal 2017. During the first quarter of fiscal 2017, we anticipate a tax shortfall of $3.0 million to $3.3 million to be recognized as income tax expense in the Consolidated Financial Statements upon the vesting of our performance-based share-based payment awards.

Comprehensive Income

The decrease in comprehensive income resulted from a decrease in net income year over year, partially offset by changes in the fair value of derivative instruments.

Consolidated and Segment Results - Fiscal 2015 compared to Fiscal 2014

Sales

Consolidated

	Fiscal 2015 52 weeks $ (Amounts in thousands)	%	Fiscal 2014 53 weeks $ (Amounts in thousands)	%	% Increase (Decrease)
Branded retail	$2,151,514	56.9	$2,102,028	56.1	2.4
Store branded retail	571,827	15.1	608,617	16.2	(6.0)
Non-retail and other	1,055,164	28.0	1,038,328	27.7	1.6
Total	$3,778,505	100.0	$3,748,973	100.0	0.8

The 0.8% increase in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	0.2
Volume	1.0
Acquisitions	1.3
Week 53 impact from Fiscal 2014	(1.7)
Total percentage change in sales	0.8

Overall, sales increased in fiscal 2015 due primarily to the DKB and Alpine acquisitions and volume growth in both the branded retail and non-retail categories. These increases were partially offset by the impact of the additional week in fiscal 2014 which affected all categories, and volume declines in the store branded retail category. The increase in branded retail sales was due primarily to the DKB and Alpine acquisition contribution, volume increases from the re-introduction of the brands we acquired as part of the Acquired Hostess Bread Assets and growth in our expansion markets (defined as new markets we entered into in the last five years), partially offset by the impact of the additional week in fiscal 2014. The decrease in store branded retail sales was due primarily to volume decreases from certain exited business, a shift to branded products and the impact of the additional week in fiscal 2014. The increase in non-retail and other sales, which include contract manufacturing, vending and foodservice, was largely due to significant volume increases in foodservice. The increase was partially offset by volume declines in contract manufacturing due to exiting the non-retail tortilla business in the second half of fiscal 2014, as well as declines in pricing/mix and the impact of the additional week in fiscal 2014.

DSD Segment

	Fiscal 2015 52 weeks		Fiscal 2014 53 weeks		% Increase
	$ (Amounts in thousands)	%	$ (Amounts in thousands)	%	(Decrease)
Branded retail	$2,011,433	63.3	$1,971,851	62.5	2.0
Store branded retail	457,467	14.4	486,886	15.4	(6.0)
Non-retail and other	710,448	22.3	696,870	22.1	1.9
Total	$3,179,348	100.0	$3,155,607	100.0	0.8

The 0.8% increase in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	0.3
Volume	1.0
Acquisition	1.2
Week 53 impact from Fiscal 2014	(1.7)
Total percentage change in sales	0.8

The increase in branded retail sales was due primarily to the DKB acquisition sales contribution and volume increases driven by the re-introduction of the brands we acquired as part of the Acquired Hostess Bread Assets and in our expansion markets, partially offset by the impact of the additional week in fiscal 2014. The decrease in store branded retail sales was due primarily to volume decreases from certain exited business, the impact of the additional week in fiscal 2014 and a shift to branded products. The increase in non-retail and other sales, which include contract manufacturing, vending and foodservice, was largely due to volume increases in foodservice, partially offset by the impact of the additional week in fiscal 2014.

Warehouse Segment

	Fiscal 2015 52 weeks		Fiscal 2014 53 weeks		% Increase (Decrease)
	$ (Amounts in thousands)	%	$ (Amounts in thousands)	%	
Branded retail	$140,081	23.4	$130,177	21.9	7.6
Store branded retail	114,360	19.1	121,731	20.5	(6.1)
Non-retail and other	344,716	57.5	341,458	57.6	1.0
Total	$599,157	100.0	$593,366	100.0	1.0

The 1.0% increase in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	(0.1)
Volume	0.7
Acquisition	2.0

Week 53 impact from Fiscal 2014	(1.6)
Total percentage change in sales	1.0

Branded retail sales increased due to the Alpine acquisition sales contribution, partially offset by the impact of the additional week in fiscal 2014. Store branded retail sales decreased due to significant volume declines in store branded cake and the impact of the additional week in the prior year. The increase in non-retail and other sales, which include contract manufacturing, vending and foodservice (including tortillas), was due primarily to significant volume increases in foodservice sales, partially offset by declines in contract manufacturing due to exiting the non-retail tortilla business in the second half of fiscal 2014, lower mix sales and the impact of the additional week in the prior year.

Materials, Supplies, Labor, and Other Production Costs (exclusive of depreciation and amortization shown separately; as a percent of sales)

Consolidated

Line item component	Fiscal 2015 % of sales	Fiscal 2014 % of sales	Increase (Decrease) as a % of sales
Ingredients	25.3	25.9	(0.6)
Workforce-related costs	14.1	13.7	0.4
Packaging	4.7	4.6	0.1
Utilities	1.6	1.7	(0.1)
Other	6.3	6.1	0.2
Total	52.0	52.0	—

Lower ingredient costs as a percent of sales, decreases in carrying costs, excluding depreciation, associated with the acquired Hostess facilities acquired as part of the Acquired Hostess Bread Assets, as well as, improved manufacturing efficiencies were offset by higher costs as a percent of sales for the acquired companies and higher workforce-related costs as a percent of sales. Ingredient costs decreased as a percent of sales largely due to lower prices for flour, sweeteners and oils and increases in outside purchases of product (sales with no associated ingredient costs), partially offset by higher egg prices and higher costs for the organic ingredients. This outside purchased product is included in the other line item above and largely relates to purchases of DKB products from co-manufacturers due to capacity constraints and higher outside purchases of product for the Warehouse Segment. Increases in workforce-related costs as a percent of sales primarily resulted from higher employee incentive costs and the incremental costs of adding productions lines, partially offset by increases in outside purchases of product (sales with no associated workforce-related costs).

Commodities, such as our baking ingredients, periodically experience price fluctuations. The cost of these inputs may fluctuate widely due to government policy and regulation, weather conditions, domestic and international demand, or other unforeseen circumstances. We enter into forward purchase agreements and other derivative financial instruments in an effort to manage the impact of such volatility in raw material prices. Any decrease in the availability of these agreements and instruments could increase the effective price of these raw materials to us and significantly affect our earnings.

DSD Segment

Line item component	Fiscal 2015 % of sales	Fiscal 2014 % of sales	Increase (Decrease) as a % of sales
Ingredients	22.7	23.4	(0.7)

Workforce-related costs	12.3	12.0	0.3
Packaging	3.3	3.4	(0.1)
Utilities	1.5	1.6	(0.1)
Other	8.4	7.6	0.8
Total	48.2	48.0	0.2

The DSD Segment's decrease in ingredient costs as a percent of sales was attributable to lower pricing on flour, sweeteners and oils for core bakeries, decreases in sales of product to the Warehouse Segment (ingredient costs with no associated sales), increases in outside purchases of product (sales with no associated ingredient cost) and lower stales. Higher costs for DKB's organic ingredients and higher egg prices partially offset the ingredient decrease. Workforce-related costs increased as a percent of sales primarily due to additional production lines and higher employee incentive costs, partially offset by decreased sales of product to the Warehouse Segment (workforce-related costs with no associated sales). The increase in the other line item is mainly due to decreases in sales of product to the Warehouse Segment, mainly the non-retail tortilla products, and increases in outside purchases of product, largely certain DKB products due to capacity constraints.

Warehouse Segment

Line item component	Fiscal 2015 % of sales	Fiscal 2014 % of sales	Increase (Decrease) as a % of sales
Ingredients	38.8	39.0	(0.2)
Workforce-related costs	23.7	22.8	0.9
Packaging	11.6	11.0	0.6
Utilities	1.8	1.9	(0.1)
Other	(4.1)	(1.4)	(2.7)
Total	71.8	73.3	(1.5)

The Warehouse Segment's decrease in ingredient costs as a percent of sales was primarily attributed to lower prices for flour, sweeteners, oils and cocoa for core bakeries and increases in outside purchases of product (sales with no associated ingredient costs). Higher egg prices, decreased product purchases from the DSD Segment (sales with no associated ingredient costs) and higher ingredient costs for Alpine partially offset the ingredient decrease. Workforce-related costs increased as a percent of sales mainly due to increased headcount, decreased purchases of product from the DSD Segment (sales with no associated workforce-related costs) and higher employee incentive costs. The increase in packaging was due primarily to price increases. The decrease in the other line item is primarily due to decreased purchases of product from the DSD Segment, largely the tortilla products for the non-retail tortilla business we exited in fiscal 2014, partially offset by increases in outside purchases of product.

Selling, Distribution and Administrative Expenses (as a percent of sales)

Consolidated

Line item component	Fiscal 2015 % of sales	Fiscal 2014 % of sales	Increase (Decrease) as a % of sales
Workforce-related costs	17.1	17.4	(0.3)
Distributor distribution fees	13.4	13.4	—
Other	6.1	5.7	0.4
Total	36.6	36.5	0.1

Workforce-related costs decreased as a percent of sales due to lower costs for the acquired companies, improvements at Lepage and cost saving initiatives we have implemented, partially offset by higher employee incentive costs and lower pension income. The majority of the acquisition sales were distributed via warehouse delivery which carries a lower cost structure than direct-store-delivery. Acquisition-related costs of $6.2 million, as well as higher legal and consulting costs in fiscal 2015 as compared to fiscal 2014 caused the majority of the increase in the other line item component.

DSD Segment

Line item component	Fiscal 2015 % of sales	Fiscal 2014 % of sales	Decrease as a % of sales
Workforce-related costs	17.1	17.5	(0.4)
Distributor distribution fees	15.9	15.9	—
Other	5.5	5.6	(0.1)
Total	38.5	39.0	(0.5)

The decrease in workforce-related costs as a percent of sales was attributable to lower costs for DKB as a percent of sales, conversions to independent distributors in newer markets, improvements at Lepage and implementing cost saving initiatives, partially offset by higher employee incentive costs. The majority of the DKB products were distributed via warehouse delivery in fiscal 2015. This resulted in distributor distribution fees remaining consistent with the prior fiscal year as a percent of sales.

Warehouse Segment

Line item component	Fiscal 2015 % of sales	Fiscal 2014 % of sales	Increase as a % of sales
Workforce-related costs	7.9	7.7	0.2
Freezer storage/rent	2.1	2.0	0.1
Distribution costs (includes freight and shipping and hauling)	2.1	2.0	0.1
Other	4.0	3.7	0.3
Total	16.1	15.4	0.7

Workforce-related costs increased primarily due to higher employee incentive costs as compared to the prior year on smaller sales increases. Additionally, higher marketing costs as a percent of sales drove the increase in the other line item, mainly attributable to marketing initiatives for the Alpine products.

Depreciation and Amortization Expense

Depreciation and amortization expense increased in dollars and as a percent of sales due primarily to the DKB and Alpine acquisitions. We recorded $240.9 million of amortizing intangible assets related to the DKB and Alpine acquisitions.

The DSD Segment's depreciation and amortization expense increased in dollars primarily due to the amortization of the acquired DKB intangible assets, partially offset by lower depreciation expense.

The Warehouse Segment's depreciation and amortization expense increase in dollars and as a percent of sales was mostly the result of the amortization of the acquired Alpine intangible assets.

Pension Plan Settlement Loss

We recorded a settlement charge of $15.4 million during the fourth quarter of our fiscal 2014 related to our pension risk mitigation plan. Refer to the Pension plan settlement losses discussion in the "Matters Affecting Comparability" section above for additional details.

Impairment of Assets

We recorded impairments of assets of $3.8 million and $10.3 million during fiscal 2015 and 2014, respectively. Refer to the Impairment of assets discussion in the "Matters Affecting Comparability" section above for additional details.

Income from Operations

Operating income (loss)	Favorable	Increase

	(Unfavorable) Percentage	(Decrease) as a % of Sales
DSD Segment	6.4	0.5
Warehouse Segment	7.4	0.5
Unallocated corporate	0.9	NA
Consolidated	8.2	0.6

NA Not applicable as the corporate segment has no revenues.

The favorable increase in the DSD Segment income from operations was largely attributable to sales increases, lower ingredient costs and lower asset impairment charges in the current year as compared to the prior year. The Warehouse Segment's favorable increase was largely attributable to exiting the lower margin non-retail tortilla business in the second half of fiscal 2014, partially offset by higher selling, distribution and administrative costs as a percent of sales. The favorable decrease in the unallocated corporate expense was largely due to the $15.4 million pension plan settlement loss recorded in fiscal 2014, mostly offset by $6.2 million of acquisition-related costs, higher legal and consulting costs and lower pension income in fiscal 2015.

Net Interest Expense

The decrease in net interest expense resulted from lower average debt outstanding during fiscal 2015 and lower average interest rates on debt outstanding, as well as, higher interest income in fiscal 2015 due to higher average distributor notes receivable outstanding year over year.

Income Taxes

The effective tax rate for fiscal 2015 and fiscal 2014 was 35.4% and 34.4%, respectively. The increase in the rate was primarily related to a reduction in the Section 199 qualifying production activities deduction and certain nondeductible acquisition-related costs. The most significant differences in the effective rate and the statutory rate were related to additions for state income taxes, partially offset by reductions for the Section 199 qualifying production activities deduction.

Comprehensive Income

The increase in comprehensive income resulted from an increase the fair value of pension and postretirement plan assets and to a lesser extent an increase in net income year over year.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

Strategy

We believe our ability to consistently generate cash flows from operating activities to meet our liquidity needs is one of our key financial strengths and we do not anticipate significant risks to these cash flows in the foreseeable future. Additionally, we strive to maintain a conservative financial position aiming to achieve this through prudent debt reduction and share repurchase programs. We believe having a conservative financial position allows us flexibility to make investments and acquisitions and is a strategic competitive advantage. Currently, our liquidity needs arise primarily from working capital requirements, capital expenditures, pension contributions and obligated debt repayments. We believe we currently have access to available funds and financing sources to meet our short and long-term capital requirements. The company's strategy for use of its excess cash flows includes:

- paying dividends to our shareholders;
- repayment of indebtedness prior to the maturity date;
- making strategic acquisitions; and
- repurchasing shares of our common stock.

The company leases certain property and equipment under various operating and capital lease arrangements. Most of the operating leases provide the company with the option, after the initial lease term, either to purchase the property at the then fair value or renew the lease at the then fair value. The capital leases provide the company with the option to purchase the property at a fixed price at the end of the lease term. The company believes the use of leases as a financing alternative places the company in a more favorable position to fulfill its long-term strategy for the use of its cash flow. See Note 12, Debt, Lease and Other Commitments, of Notes to Consolidated Financial Statements of this Form 10-K for detailed financial information regarding the company's lease arrangements.

Key items impacting our liquidity, capital resources and financial position in Fiscal 2016 and 2015:

Fiscal 2016:

- We generated $346.0 million of net cash from operating activities.

- We issued $400.0 million of the 2026 notes that mature on October 1, 2026.
- We repaid the 2016 and 2013 term loans prior to maturity with proceeds from the 2026 notes.
- We reduced our total debt outstanding $55.6 million.
- We repurchased 6.9 million shares of our common stock for $126.3 million (including shares repurchased under the ASR).
- We invested in our plants through capital expenditures of $101.7 million (DSD Segment of $61.7 million and Warehouse Segment of $16.8 million).

- We paid dividends of $131.1 million.
- We continued our pension de-risking strategy by offering pension plan participants who have not yet started receiving their payments, the option to receive their benefit as a single lump sum payment.

Fiscal 2015:

- We generated $318.3 million of cash from operating activities.
- We acquired DKB for $282.1 million in cash.
- We acquired Alpine for $109.3 in cash and 481,540 shares of our common stock.
- Our capital expenditures were $90.8 million (DSD Segment of $72.1 million and Warehouse Segment of $9.6 million).
- We paid dividends of $120.4 million.
- Our debt and capital lease obligations increased $247.0 million (primarily to fund the cash paid for the acquisitions).

Liquidity Discussion

Flowers Foods' cash and cash equivalents were $6.4 million at December 31, 2016, $14.4 million at January 2, 2016 and $7.5 million at January 3, 2015. The cash and cash equivalents were derived from the activities presented in the table below (amounts in thousands):

Cash flow component	Fiscal 2016	Fiscal 2015	Fiscal 2014
Cash flows provided by operating activities	$346,044	$318,301	$315,183
Cash disbursed for investing activities	(70,047)	(461,576)	(34,526)
Cash provided by (disbursed for) financing activities	(283,965)	150,130	(281,664)
Total change in cash	$(7,968)	$6,855	$(1,007)

Cash Flows Provided by Operating Activities. Net cash provided by operating activities included the following items for non-cash adjustments to net income (amounts in thousands):

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Depreciation and amortization	$140,869	$132,175	$128,961
Stock-based compensation	18,761	15,692	18,662
Impairment of assets	24,877	3,771	10,308
Deferred income taxes	(14,457)	18,293	9,241
Pension and postretirement plans (benefit) expense (including settlement losses)	2,238	(5,878)	5,341
Other non-cash	6,039	8,297	5,033
Net non-cash adjustment to net income	$178,327	$172,350	$177,546

- The changes in depreciation and amortization were primarily due to the intangible assets acquired with the DKB and Alpine acquisitions which have finite lives.
- Refer to the Impairment of assets discussion in the "Matters Affecting Comparability" section above.

- Deferred income taxes changed due to changes in temporary differences year over year.
- Changes in pension and postretirement plan (benefit) expense were primarily due to settlement losses of $6.6 million and $15.4 million in fiscal 2016 and 2014, respectively. There were no settlement losses recorded in fiscal 2015.
- Other non-cash items include non-cash interest expense for the amortization of debt discounts and deferred financing costs and gains or losses on the sale of assets.

Net cash for working capital requirements and pension contributions included the following items (amounts in thousands):

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Changes in accounts receivable, net	$(7,888)	$(16,873)	$7,181
Changes in inventories, net	(1,526)	(9,717)	6,977
Changes in hedging activities, net	13,592	(12,818)	22
Changes in other assets	(11,107)	(12,899)	(11,337)
Changes in accounts payable	(519)	14,563	(9,951)
Changes in other accrued liabilities	12,389	4,504	(17,995)
Qualified pension plan contributions	(1,000)	(10,000)	(12,999)
Net changes in working capital and pension contributions	$3,941	$(43,240)	$(38,102)

- Hedging activities change from market movements that affect the fair value and required collateral of positions and the timing and recognition of deferred gains or losses. These changes will occur as part of our hedging program.
- Refer to Note 19, Postretirement Plans, of Notes to Consolidated Financial Statements of this Form 10-K regarding qualified pension plan contributions.

During the first quarter of fiscal 2017, we anticipate making payments of approximately $17.8 million, including our share of employment taxes, in performance-based cash awards under our bonus plan. During fiscal 2016 and 2015, the company paid $25.6 million and $16.4 million, respectively, including our share of employment taxes, in performance-based cash awards under the company's bonus plan. An additional $0.4 million and $1.5 million for our share of employment taxes on the vesting of the performance-contingent restricted stock award was also paid during fiscal 2016 and 2015, respectively.

Cash Flows Disbursed for Investing Activities. The table below presents net cash disbursed for investing activities for fiscal 2016, 2015 and 2014 (amounts in thousands):

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Purchase of property, plant, and equipment	$(101,727)	$(90,773)	$(83,778)
Repurchase of independent distributor territories	(10,350)	(13,768)	(16,198)
Principal payments from notes receivable	22,272	23,023	21,103
Acquisition of businesses, net of cash acquired	—	(390,221)	—
Contingently refundable consideration	—	—	7,500
Proceeds from sale of property, plant and equipment	17,667	14,324	36,303
Acquisition of intangible assets	—	(5,000)	—
Other	2,091	839	544
Net cash disbursed for investing activities	$(70,047)	$(461,576)	$(34,526)

- Capital expenditures by segment were as follows:

Segment	Fiscal 2016	Fiscal 2015	Fiscal 2014
DSD Segment	$61,669	$72,148	$73,454
Warehouse Segment	16,792	9,596	6,468

The company currently estimates capital expenditures of approximately $95.0 million to $105.0 million on a consolidated basis during fiscal 2017.

- Cash payments for the DKB acquisition of $282.1 million in the third quarter of fiscal 2015 and for the Alpine acquisition of $109.3 million in the fourth quarter of fiscal 2015 were funded from cash on hand and drawdowns from our existing credit facilities. Additionally, we acquired the Roman Meal trademark for $5.0 million in the first quarter of fiscal 2015.
- In fiscal 2014, the company received $7.5 million for the cancelation of a co-pack agreement associated with the Sara Lee California acquisition. See Note 8, Acquisitions, of Notes to Consolidated Financial Statements of this Form 10-K for more details on the acquisitions that occurred during the reporting periods.
- Proceeds from the sale of property, plant and equipment in fiscal 2016, 2015 and 2014 were primarily related to the sale of certain idle plants, depots and equipment acquired in the Acquired Hostess Bread Assets acquisition as well as other closed plants. Additionally, in fiscal 2014, we received proceeds of $8.4 million from the sale of our Ft. Worth, Texas tortilla facility.

Cash Flows Provided by (Disbursed for) Financing Activities. The table below presents net cash provided by (disbursed for) financing activities for fiscal 2016, 2015 and 2014 (amounts in thousands):

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Dividends paid, including dividends on share-based payment awards	$(131,073)	$(120,442)	$(102,302)
Exercise of stock options, including windfall tax benefit	31,482	28,751	28,893
Payments for financing fees	(4,380)	(646)	(773)
Stock repurchases, including accelerated stock repurchases	(126,300)	(6,858)	(38,916)
Change in bank overdrafts	1,914	2,325	(679)
Net debt and capital lease obligation changes	(55,608)	247,000	(167,887)
Net cash provided by (disbursed for) financing activities	$(283,965)	$150,130	$(281,664)

- Our dividend payout rate increased 10.1% from fiscal 2015 to fiscal 2016 and 17.0% from fiscal 2014 to fiscal 2015. While there are no requirements to increase the dividend payout we have shown a recent historical trend to do so. Should this continue in the future we will have additional cash needs to meet these expected dividend payouts.
- As of December 31, 2016, there were nonqualified stock option grants of 1.8 million shares that were exercisable. These have a remaining contractual life of approximately 0.90 years and a weighted average exercise price of $10.89 per share. At this time, it is expected that these shares will be exercised before the contractual term expires and such exercises may provide an increase to the cash provided by financing activities.
- Stock repurchase decisions are made based on our stock price, our belief of relative value, and our cash projections at any given time. In fiscal 2016, we repurchased 6.9 million shares of our common stock, of which 6.5 million were repurchased under the ASR program. See Note 15, Stockholders' Equity, of Notes to Consolidated Financial Statements of this Form 10-K for additional information.
- Net debt obligations increased in fiscal 2015 primarily due to funding the DKB and Alpine acquisitions, net of repayments we made during the year.

Capital Structure

Long-term debt and capital lease obligations were as follows at December 31, 2016 and January 2, 2016. For a detailed description of our debt and capital lease obligations and information regarding our credit ratings, distributor arrangements, deferred compensation, and guarantees and indemnification obligations, see Note 12, Debt, Lease and Other Commitments, of Notes to Consolidated Financial Statements of this Form 10-K:

	Interest Rate at December 31, 2016	Final Maturity	Balance at December 31, 2016	January 2, 2016	Fixed or Variable Rate
			(Amounts in thousands)		
2026 senior notes	3.50%	2026	$394,406	$—	Fixed Rate
2022 senior notes	4.38%	2022	397,458	396,975	Fixed Rate
Unsecured credit facility	4.08%	2020	24,000	160,000	Variable Rate

Accounts receivable securitization	1.59%	2018	95,000	170,000	Variable Rate
Unsecured 2016 term loan	—	NA	—	—	Variable Rate