

FLOWERS FOODS INC
Form 10-K
February 20, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 29, 2012

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

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(State or other jurisdiction of

(I.R.S. 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 Smaller reporting company
(Do not check if a smaller reporting company)

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

Based on the closing sales price on the New York Stock Exchange on July 14, 2012 the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was \$2,840,984,349.

On February 15, 2013, the number of shares outstanding of the registrant's Common Stock, \$0.01 par value, was 138,297,249.

DOCUMENTS INCORPORATED BY REFERENCE:

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Portions of the registrant's Proxy Statement for the 2013 Annual Meeting of Shareholders to be held May 22, 2013, which will be filed with the Securities and Exchange Commission on or prior to April 10, 2013, have been incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

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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, 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, independent distributors and third party service providers; and (vi) laws and regulations (including environmental and health-related issues), accounting standards or tax rates in the markets in which we operate;

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

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

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

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

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

our ability to implement new technology and customer requirements as required;

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

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

consolidation within the baking industry and related industries;

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any business disruptions due to political instability, armed hostilities, incidents of terrorism, natural disasters, 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; and

regulation and legislation related to climate change that could affect our ability to procure our commodity needs or that necessitate additional unplanned capital expenditures.

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

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

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.

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PART I

**Item 1. *Business*
Historical Information**

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

From 2003 through 2012, Flowers Foods executed its growth strategy to reach more of the U.S. population with fresh breads, buns, rolls, and snack cakes through its Direct-Store-Delivery segment. In the nine year span, the company's access to the U.S. population for its fresh bakery products and brands grew from about 38% to more than 70%. The company's market capitalization increased from \$418.9 million to \$3,172.0 million at the end of fiscal 2012.

As used herein, references to we, our, us, the company, Flowers or Flowers Foods include the historical operating results and activities of business operations that comprised Flowers Foods, Inc., as of December 29, 2012.

The Company

Flowers Foods currently operates two business segments: a direct-store-delivery segment (DSD segment) and a warehouse delivery segment (warehouse segment). The DSD segment (82% of total sales) operates 35 bakeries that market a wide variety of fresh bakery foods, including fresh breads, buns, rolls, tortillas, and snack cakes. These products are sold through a DSD route delivery system to retail and foodservice customers in the Southeast, Mid-Atlantic, New England, and Southwest as well as in select markets in California and Nevada. The warehouse segment (18% of total sales) operates 10 bakeries that produce snack cakes and breads and rolls for national retail, foodservice, vending, and co-pack customers and deliver through customers' warehouse channels.

At the end of 2012, the DSD segment's fresh bakery foods were available to more than 70% of the U.S. population. Our DSD system is comprised of approximately 4,100 independent distributors who own the rights to distribute certain brands of our fresh packaged bakery foods in their geographic territories. In addition, the company has approximately 890 company-owned territories available for sale. This number increased significantly during fiscal 2012 because of additional territories held for sale from acquisitions.

The warehouse segment's fresh snack cakes and frozen breads and rolls are sold nationally direct to customers' warehouses and delivered through frozen and non-frozen contract carriers.

See Note 21, *Segment Reporting*, of Notes to Consolidated Financial Statements of this Form 10-K for financial information about our segments.

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Our brands are among the best known in the baking industry. Many of our DSD 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 our core Southern markets. Our brands include the following:

DSD Segment Brands/ Company Owned	DSD Segment Brands/Franchised/Licensed	Warehouse Segment Brands/ Company Owned
<p><i>Nature's Own</i> <i>Wheat</i> <i>Tastykake</i> <i>Bluebird</i> <i>Cobblestone Mill</i> <i>ButterKrust</i> <i>Dandee</i> <i>Mary Jane</i> <i>Mary Jane and Friends</i> <i>Evangeline Maid</i> <i>Captain John Derst</i> <i>Country Hearth</i> <i>Natural Grain</i></p> <p><i>Flowers Foods</i> <i>Mi Casa</i> <i>Frestillas</i> <i>Barowsky's</i></p>	<p><i>Sunbeam</i> <i>Roman Meal</i> <i>Bunny</i> <i>Holsum</i> <i>Aunt Hattie's</i> <i>Country Kitchen</i></p>	<p><i>Mrs. Freshley's</i> <i>European Bakers</i> <i>Broad Street Bakery</i> <i>Leo's Foods</i> <i>Juarez</i> <i>Tesoritos</i></p>

Strategies

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

Grow Sales. We have a three-pronged strategy for growing sales through acquisitions, market expansions, and core markets.

Invest Wisely. 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 team members.

Grow Sales

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 products that are responsive to changing consumer needs and preferences using market research and the strength of our well-established brands. We establish and strengthen our brands in existing and new markets by focusing on

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product quality, offering a broad and diverse product line, and providing exceptional customer service. We expand our geographic reach by making strategic acquisitions and expanding from our existing bakeries into new markets. Our growth strategy has proven successful, evidenced by our sales and net income compound average annual growth rate of 8.4% and 8.5%, respectively, over the last five years. Our strategy encompasses specific efforts for growth through acquisitions, market expansions, and core markets.

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Acquisitions

Growth through acquisitions has been an important component of our strategy. Since our initial public offering in 1968, we have made over 100 acquisitions. Since our spinoff in 2001, Flowers Foods has made 10 acquisitions that, at the time of the acquisition, added approximately \$737 million in annual revenue. Our primary acquisition targets have been independent/regional baking companies in areas of the country where we have not previously had access to market our fresh baked foods.

In October 2012, Flowers announced an agreement to acquire from Grupo Bimbo, S.A.B. de C.V. (Grupo Bimbo) perpetual, exclusive, and royalty-free licenses to the *Sara Lee* and *Earthgrains* brands for sliced breads, buns, and rolls in the state of California, which together account for annual sales of approximately \$134 million. In addition, Flowers received a perpetual, exclusive, and royalty-free license to the *Earthgrains* brand for a broad range of fresh bakery products in the Oklahoma City, Oklahoma, market area. The Oklahoma license purchase was completed during fiscal 2012 for an immaterial cost. The California transition is expected to be completed in phases. The California transaction is expected to close on February 23, 2013. On January 29, 2013, Grupo Bimbo filed a motion with the United States District Court for the District of Columbia seeking to suspend the California transaction pending a review by the United States Department of Justice of the company's proposed acquisition of certain assets and brands of Hostess Brands, Inc. On February 13, 2013, the court denied the motion.

In July 2012, we completed the acquisition of Lepage Bakeries and certain of its affiliated companies (Lepage), a strong regional baker that serves New England and New York. Lepage operates two bakeries in Maine and one in Vermont with fresh breads, buns, rolls, croissants, english muffins, and donuts. The acquisition extends Flowers Foods' reach into New England and brings new brands (*Country Kitchen* and *Barowsky's*), products, and customers to strengthen our DSD segment.

In May 2011, the company acquired Tasty Baking Company (Tasty) to strengthen our position in the branded snack cake category and extend our DSD distribution into the Northeast. The *Tastykake* brand has been introduced through most of Flowers' DSD territory and Flowers' bread brands are being introduced into Tasty's core markets in the Mid-Atlantic states, New Jersey, and New York.

Expansion Markets

In 2011, we announced a specific market expansion goal: To serve a geographical area that includes at least 75% of the U.S. population by 2016 with our *Nature's Own* brand and other fresh DSD brands. At the end of 2012, we had expanded our population reach to more than 70%, moving into 10 states and added \$170.6 million in annual sales in these expansion markets. Expansion markets are new markets entered into since 2004. These markets include acquisitions and added territories through market expansion. We accomplished this by expanding the reach of our existing bakeries into new territories, building new bakeries, and merging with or acquiring independent bakers in strategic locations.

We intend to accomplish our long-term goals by continuing our strategy of market expansion, building new bakeries, and merging with or acquiring independent bakeries.

Our market expansion efforts are driven by our individual bakeries as they extend their service boundaries by serving new customers in territories adjacent to their current service areas. They accomplish this by partnering with retail and foodservice customers to serve new locations, adding our direct-store-distribution structure, and working to reach new customers in the targeted growth area.

Core Markets

Our strategy for growth in core markets includes introducing new products to serve both retail and foodservice customers. We have been successful in developing innovative products that gained consumer acceptance, as evidenced by reaching our goal of having new products comprise 3% to 5% of our sales growth for the last five years. A list of new products for fiscal 2012 can be found below in the Brands & Products discussion.

In core markets, we also strive to enhance our customer base by reaching out to retailers or foodservice customers to offer additional products to those we currently serve and develop relationships with those who are potential customers.

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Invest Wisely & Bake Smart

Throughout our history, we have devoted significant resources to automate our production facilities and improve our distribution capabilities. We believe these investments have made us one of the most efficient 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, highly sanitary processes, and greater production volume at a lower cost per unit.

From 2008 through 2012, we invested \$403.8 million in capital projects. We believe this consistent, yearly investment in our bakeries has given us a competitive edge in the baking industry and we are committed to maintaining that advantage by continuing our investments in new technology and improved processes. In 2012, we announced a \$31.0 million investment in our Oxford, Pennsylvania bakery to add bread production capacity. The new production capacity, which we expect to be completed in the spring of fiscal 2013, will help support our introduction of *Nature's Own* and other breads into Pennsylvania, New Jersey, and the northeast. We expect that a second investment of approximately \$18.0 million in a production line for buns will be made in the future.

Our investment decisions also include assessing current production capacity and, from time to time, it is necessary for us to close older, less efficient facilities.

Through several decades, we have established a reciprocal baking system that allows us to move or shift production among our DSD segment bakeries to ensure that we are able to meet current market needs, respond to extraordinary events (such as hurricanes or other natural disasters), and remain a low-cost producer and marketer of a full line of bakery products on a national and super-regional basis. We also use company-owned and leased warehouses and distribution centers located in geographic areas that allow for efficient movement of our products from bakery to market.

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

Engaging in research and development activities that involve developing new products, improving the quality of existing products, and improving and automating production processes.

Developing and evaluating new processing techniques for both current and proposed product lines.

Improving our shipping and logistics. In 2009, we began to roll out 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 2012, we had installed this automated shipping system in 18 of our bakeries. We intend to install this system in six additional bakeries during 2013.

Conserving resources. In November 2012, we published our 2011 Sustainability Report, in which we report sustainability data for our non-manufacturing facilities (warehouses, distribution centers, offices, and retail outlets). The Sustainability Report can be found on our website www.flowersfoods.com.

Give Extraordinary Service

When it comes to our customers, our strategy is to go beyond the expected. We know that great service helps build strong relationships with our retail and foodservice customers. Our reputation for excellent service supports our sales growth in core markets and helps us as we move into new markets.

Our national accounts team for key customers supports bakery teams to build trade relationships at the corporate and local level. They are assisted by our business analysis and insights team that provides our trade partners with objective statistical data and creative ideas aimed at enhancing the overall bakery category. We also work with trade customers in other ways – from web-based ordering to scan-based trading or pay-by-scan (PBS). In foodservice, we partner with national chains to develop customized bakery items that meet their specific needs.

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Appreciate the Team

We strive to maintain good relationships and ongoing communications with all our team members. We are committed to equal employment opportunities, meeting all federal and state employment laws, and striving to respect the dignity of all our team members and associates. 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 our open door policy and peer review program.

We employ approximately 9,800 people. Approximately 980 of these employees are covered by collective bargaining agreements. We believe that we have good relations with our employees.

Brands & Products

Nature's Own is the bestselling loaf bread in the U.S. in pounds and dollars and its compound annual growth rate in sales since 2000 has been 11.7%.

During 2012, we introduced the following new products under this brand:

Nature's Own 8 pack ButterBuns Sandwich Rolls & Hot Dog Rolls

Nature's Own Pull-A-Part Butterbread Dinner Rolls

Nature's Own Oatmeal Cinnamon Raisin and Oatmeal Cranberry Orange Toasters,

We also introduced *Nature's Own* into the following new markets: Philadelphia, Cincinnati/Dayton, Pittsburgh, and St. Louis. In addition to *Nature's Own*, our DSD segment also markets, among others:

Lepage brands, including *Barowsky's* and *Country Kitchen*. We introduced *Nature's Own* to the Lepage territories.

Tastykake and *Blue Bird* branded snack cakes and pastries. In 2012, we added new items to the *Tastykake* lineup, including *Tastykake* Chocolate Bells, *Tastykake* Bag and 6 pack Mini Donuts, and *Tastykake* Kandy Bar Kakes. The *Tastykake* brand expanded into Texas and into the New England Lepage market.

Fresh packaged bakery products under store brands for retailers. While store branded products carry lower margins than our branded products, they allow us to effectively use available production and distribution capacity. Store branded product also helps the company

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expand our total retail shelf space.

Our warehouse segment markets a line of specialty breads and rolls under the *European Bakers* brand, proprietary breads, buns, and rolls for specific foodservice customers, and tortillas and tortilla chips under *Leo's Foods* and *Juarez*. This segment's snack cakes are sold under the *Mrs. Freshley's*, *Broad Street Bakery*, and store brands. Our warehouse segment products are distributed nationally through retail, foodservice and vending customer warehouses.

In 2012, we had the following initiatives for the *Mrs. Freshley's* brand:

Introduced Made with Cinnabon Cinnamon Honey Bun, Danish, and Coffee Cakes.

Reintroduced our Crème Cakes under a new name, Dreamies, and a new package design.

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During 2012, we spent \$1.9 million in product development costs for new products and product enhancements.

Marketing

We support our key brands with a multi-million dollar 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 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.

Customers

Our top 10 customers in fiscal 2012 accounted for 45.1% of sales. During 2012, our largest customer, Walmart/Sam's Club, represented 20.7% 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 2012, 2011 or 2010.

Our 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 239 such stores, and reported sales of \$65.2 million during fiscal 2012 related to these outlets.

Our warehouse segment supplies numerous restaurants, institutions and foodservice distributors, and retail in-store bakeries with frozen bakery products. It also sells packaged bakery products to wholesale distributors for ultimate sale to a wide variety of food outlets. It sells packaged bakery 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 system is a complex process. It involves determining appropriate order levels, delivering products from bakeries to independent distributors for direct delivery to customer stores, stocking shelves, maintaining special displays, and visiting customers daily to ensure adequate inventory and removing unsold goods.

To get fresh bakery foods to market, we use a network of approximately 5,000 routes (or territories) to distribute certain Flowers DSD brands in specified geographic territories. The company has sold the majority of these territories to independent distributors under long-term financing arrangements. The independent distributor program is designed to provide retail and foodservice customers with superior service. Independent distributors, highly motivated by financial incentives from their territory 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 territories resulting from higher branded sales volume.

The company has developed proprietary software on the hand-held computers that independent distributors use for daily 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 reduces the company's selling, distribution and administrative expenses, and totaled \$4.9 million in 2012, \$4.6 million in 2011, and \$3.7 million in 2010. 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. This system ensures that distributors have an adequate supply of the right mix of products to meet retail and foodservice customers' immediate needs. We believe our system minimizes returns of unsold goods.

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

We also use 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 merchandise products. PBS also benefits retailers, who only pay suppliers for what they actually sell, or what is scanned at checkout. During fiscal 2012 approximately \$863.9 million of our DSD segment sales came through our PBS system.

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. Our snack cake bakeries operate what we believe are long, efficient production runs of a single product, which are then shipped to the central distribution facility. 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 it does not own. We consider all our trademarks and trade names important to our business since we use them to build strong brand awareness and consumer loyalty. On July 23, 2008, one of our wholly-owned subsidiaries filed a lawsuit against Hostess Brands, Inc. (Hostess) (formerly Interstate Bakeries Corporation) in the United States District Court for the Northern District of Georgia. The complaint alleges that Hostess is infringing upon Flowers' *Nature's Own* trademarks by using or intending to use the *Nature's Pride* trademark. Flowers Foods asserts that Hostess's sale or intended sale of baked goods under the *Nature's Pride* trademark is likely to cause confusion with, and likely to dilute the distinctiveness of, the *Nature's Own* mark and constitutes unfair competition and deceptive trade practices. Flowers Foods is seeking actual damages, an accounting of Hostess's profits from its sales of *Nature's Pride* products, and injunctive relief. Flowers Foods sought summary judgment for our claims, which was denied by the court. On January 11, 2012, Hostess filed a voluntary petition for relief in the United States Bankruptcy Court for the Southern District of New York under Chapter 11, Title 11, United States Code. The bankruptcy filing automatically stayed the trademark lawsuit. One of the asset purchase agreements that Flowers Foods entered into with Hostess on January 11, 2013, described more fully below under Management's Discussion and Analysis of Financial Condition and Results of Operations Overview, includes the transfer of the ownership of the *Nature's Pride* brand to Flowers Foods and a settlement and release agreement among the parties. In the event that the transaction is not ultimately approved or is otherwise terminated, Flowers Foods rights with respect to the current litigation will be preserved.

Raw Materials

Our primary baking ingredients are flour, sweeteners, and shortening. 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 as fuel for firing our ovens. Our independent distributors and third-party shipping companies use gasoline and diesel as fuel for their trucks.

As commodities, many of our baking ingredients are subject to periodic price fluctuations. Over the past six years the commodities market has been extremely volatile. Agricultural commodity prices reached all time highs

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in 2007 and have remained volatile every year since. We expect our commodity costs to increase in 2013. These costs fluctuate widely due to government policy and regulation, weather conditions, domestic and international demand, or other unforeseen circumstances. Our company enters into forward purchase agreements and derivative financial instruments to manage the impact of such volatility in raw material prices. Any decrease in the availability of these agreements and instruments could increase the price of these raw materials and significantly affect our earnings.

Regulations

As a producer and marketer of food items, our operations are subject to regulation by various federal governmental agencies, including the Food and Drug Administration, the Department of Agriculture, the Federal Trade Commission, the Environmental Protection Agency, and the Department of Commerce. We also are subject to the regulations of various state agencies, with respect to production processes, product quality, packaging, labeling, storage, distribution and local regulations regarding the licensing of plants 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 can result in a variety of sanctions, including monetary fines or compulsory withdrawal of products from store shelves.

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 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 regulations affecting the company and its properties.

Competitive Overview

The U.S. retail market for fresh packaged bakery products is estimated at \$21.2 billion. This category is intensely competitive. It is comprised of large food companies, retailer-owned bakeries, large independent bakeries with national distribution, and smaller regional and local bakeries. From a national standpoint, Flowers Foods is currently the number two company in the U.S. fresh baking industry based on market share.

At the start of 2012, the primary national competitors in the fresh bakery category included Grupo Bimbo S.A. de C.V./Bimbo Bakeries (Grupo Bimbo) (*Arnold, Thomas, Entemann's*), Hostess (*Wonder Bread, Hostess*), Campbell Soup Company (*Pepperidge Farm*), and retailer-owned bakeries. Flowers Foods also faces significant competition from store brands (also known as private label) and products produced by independent bakers. While store brand breads and rolls have been offered by food retailers for decades, food retailers have put more emphasis on store brand products with the entry of mass merchandisers like Walmart and the ongoing consolidation of traditional supermarkets into much larger regional operations. In general, the store brand share of the fresh bread aisle accounts for approximately 25% of the dollar sales and approximately 36% of unit sales.

There are also a number of smaller regional bakers, although some of them do not enjoy some of the competitive advantages of larger operations, including greater brand awareness and economies of scale in areas such as purchasing, distribution, production, information technology, advertising and marketing. However, size alone is not sufficient to ensure success in our industry.

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The competitive landscape in the U.S. fresh baking industry continues to change. In 2011, Grupo Bimbo completed its acquisition of Sara Lee. By the end of 2012, Hostess, which has been in bankruptcy for seven of the last eight years, shut down production and announced it would liquidate its business. That process is proceeding under the supervision of the Bankruptcy Court.

Competition in the baking industry continues to be driven by a number of factors. These include the ability to serve consolidated and larger 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.

Competition for fresh packaged bakery snack products is based upon the ability to meet production and distribution demands of retail and vending customers at a competitive price. Primary national competitors for fresh packaged bakery snack products include McKee Foods Corporation (*Little Debbie*), Cloverhill Bakery and Grupo Bimbo.

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

Flowers Foods also faces competition from store brands that are produced both by us and our competitors. For several decades, store brand breads and rolls have been offered by food retail customers. Recently, food retailers have put more emphasis on store brand products, initiating a store brand push in such categories as chips and cereals. In general, the store brand share of the fresh bread aisle has remained relatively consistent.

Other Available Information

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

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

The SEC also maintains a web site 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.

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

Board Committees

Code of Business Conduct and Ethics

Flowers Foods Employee Code of Conduct

Disclosure Policy

Corporate Governance Guidelines

Stock Ownership Guidelines

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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. 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.

In recent years, economic conditions were significantly strained in the United States. 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 and/or limit our ability to increase or maintain prices. If either of these events occur, or if unfavorable economic conditions continue, our sales and profitability could be adversely affected.

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

Commodities, such as flour, sweeteners, and shortening, which are used in our bakery products, are subject to price fluctuations. The cost of these inputs may fluctuate widely due to government policies and regulations, weather conditions, domestic and international demand, or other unforeseen circumstances. Any substantial change in the prices 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. Our failure to enter into effective 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 for firing ovens. Our independent distributors and third-party shipping companies are dependent upon gasoline and diesel for their vehicles. 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 cost increases through future pricing actions. Also, as a result of these pricing actions, consumers could purchase less or move from purchasing high-margin branded products to lower-margin store brands.

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 transaction 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, and viruses. Any such damage or interruption could have a material adverse effect on our business.

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Competition could adversely impact revenues and profitability.

The United States bakery industry is highly competitive. Competition is based on product availability, product quality, price, effective promotions, and the ability to target changing consumer preferences. We experience price pressure from time to time 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.

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

We have several large customers that account for a significant portion of our sales, and the loss of one of our large customers could adversely affect our results of operations. Our top ten customers accounted for 45.1% of our sales during fiscal 2012. Our largest customer, Walmart/Sam's Club, accounted for 20.7% of our 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. 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.

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

If our retail and foodservice