FLOWERS FOODS INC
Form 10-Q
August 24, 2010

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

(Mark One)

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

For the quarterly period ended July 17, 2010

OR

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

For the transition period from __________ to __________

Commission file number 1-16247

FLOWERS FOODS, INC.

(Exact name of registrant as specified in its charter)

GEORGIA	**58-2582379**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1919 FLOWERS CIRCLE, THOMASVILLE, GEORGIA

(Address of principal executive offices)

31757

(Zip Code)

229/226-9110

(Registrant s telephone number, including area code)

N/A

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

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

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

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 þ **Accelerated filer** o **Non-accelerated filer** o

Smaller reporting company o

(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 o **No** þ

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

TITLE OF EACH CLASS	OUTSTANDING AT AUGUST 18, 2010
Common Stock, $.01 par value with Preferred Share Purchase Rights	91,915,139

FLOWERS FOODS, INC.
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Forward-Looking Statements

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

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

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

The foregoing list of important factors does not include all such factors, nor necessarily present them in order of importance. In addition, you should consult other disclosures made by the company (such as in our other filings with the Securities and Exchange Commission (SEC) or in company press releases) for other factors that may cause actual results to differ materially from those projected by the company. Please refer to Part I, Item 1A., *Risk Factors*, of the company s Form 10-K filed on March 3, 2010 for additional information regarding factors that could affect the company s results of operations, financial condition and liquidity.

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

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

	JULY 17, 2010	JANUARY 2, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,529	$ 18,948
Accounts and notes receivable, net of allowances of $897 and $469, respectively	184,735	178,708
Inventories, net:		
Raw materials	20,192	20,952
Packaging materials	13,501	12,065
Finished goods	28,407	27,979
	62,100	60,996
Spare parts and supplies	36,278	35,437
Deferred taxes	13,805	20,714
Other	25,291	24,152
Total current assets	328,738	338,955
Property, Plant and Equipment, net of accumulated depreciation of $663,140 and $652,587, respectively	596,905	602,576
Notes Receivable	92,646	94,457
Assets Held for Sale Distributor Routes	8,856	6,535
Other Assets	6,227	4,157
Goodwill	200,153	201,682
Other Intangible Assets, net	99,824	103,080
Total assets	$ 1,333,349	$ 1,351,442
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital leases	$ 25,340	$ 25,763
Accounts payable	102,286	92,692
Other accrued liabilities	115,404	103,317

Total current liabilities	243,030	221,772
Long-Term Debt and Capital Leases	137,233	225,905
Other Liabilities:		
Post-retirement/post-employment obligations	67,186	68,140
Deferred taxes	62,888	63,748
Other	44,306	43,851
Total other liabilities	174,380	175,739
Commitments and Contingencies		
Flowers Foods, Inc. Stockholders Equity:		
Preferred stock $100 par value, 100,000 authorized and none issued		
Preferred stock $.01 par value, 900,000 authorized and none issued		
Common stock $.01 par value, 500,000,000 authorized shares, 101,659,924 shares and 101,659,924 shares issued, respectively	1,017	1,017
Treasury stock 9,742,624 shares and 10,200,387 shares, respectively	(181,230)	(189,250)
Capital in excess of par value	533,870	531,326
Retained earnings	477,625	437,524
Accumulated other comprehensive loss	(52,576)	(64,672)
Total Flowers Foods, Inc. stockholders equity	778,706	715,945
Noncontrolling interest		12,081
Total stockholders equity	778,706	728,026
Total liabilities and stockholders equity	$ 1,333,349	$ 1,351,442

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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

	FOR THE TWELVE WEEKS ENDED		FOR THE TWENTY-EIGHT WEEKS ENDED	
	JULY 17, 2010	JULY 18, 2009	JULY 17, 2010	JULY 18, 2009
Sales	$ 607,716	$ 614,448	$ 1,402,742	$ 1,421,455
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)	318,553	333,339	733,351	762,801
Selling, distribution and administrative expenses	217,906	216,602	510,457	510,624
Depreciation and amortization	20,021	18,656	45,658	42,933
Gain on acquisition		3,013		3,013
Income from operations	51,236	48,864	113,276	108,110
Interest expense	(1,984)	(2,806)	(4,768)	(6,401)
Interest income	2,940	2,986	6,855	7,040
Income before income taxes	52,192	49,044	115,363	108,749
Income tax expense	18,436	17,947	40,920	39,819
Net income	33,756	31,097	74,443	68,930
Less: net income attributable to noncontrolling interest		(756)		(1,208)
Net income attributable to Flowers Foods, Inc.	$ 33,756	$ 30,341	$ 74,443	$ 67,722
Net Income Per Common Share:				
Basic:				
Net income attributable to Flowers Foods, Inc. common shareholders	$ 0.37	$ 0.33	$ 0.81	$ 0.73
Weighted average shares outstanding	91,603	92,141	91,554	92,474
Diluted:				
Net income attributable to Flowers Foods, Inc. common shareholders	$ 0.37	$ 0.33	$ 0.81	$ 0.73
Weighted average shares outstanding	92,358	92,630	92,316	92,979
Cash dividends paid per common share	$ 0.200	$ 0.175	$ 0.375	$ 0.325

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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FLOWERS FOODS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME
(Unaudited)

	Comprehensive Income	Common Stock Number of Shares Issued	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Number of Shares	Treasury Stock Cost	Noncontrolling interest	Total
Balances at anuary 2, 2010		101,659,924	$ 1,017	$ 531,326	$ 437,524	$ (64,672)	(10,200,387)	$ (189,250)	$ 12,081	$ 728,026
Deconsolidation of Variable nterest Entity Note 8)									(12,081)	(12,081
Net income	$ 74,443				74,443					74,443
Derivative ransactions, net	11,384					11,384				11,384
Amortization of prior service credit	(58)					(58)				(58
Reduction in minimum pension liability	68					68				68
Amortization of ctuarial loss	702					702				702
Comprehensive ncome	$ 86,539									
Exercise of tock options				(937)			292,087	5,432		4,495
Deferred stock vesting				(631)			33,920	631		
ssuance of estricted stock ward				(4,102)			220,640	4,102		
Amortization of hare-based payment compensation				7,374						7,374
Tax benefits elated to share based payment wards				810						810
Share-based payment orfeitures				30			(1,613)	(30)		

Stock repurchases						(87,271)	(2,115)		(2,115)
Dividends paid $0.375 per common share				(34,342)					(34,342)
Balances at July 17, 2010	101,659,924	$ 1,017	$ 533,870	$ 477,625	$ (52,576)	(9,742,624)	$ (181,230)	$	$ 778,706

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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

	FOR THE TWENTY-EIGHT WEEKS ENDED	
	JULY 17, 2010	JULY 18, 2009
CASH FLOWS PROVIDED BY (DISBURSED FOR) OPERATING ACTIVITIES:		
Net income	$ 74,443	$ 68,930
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	7,482	6,041
Loss reclassified from accumulated other comprehensive income to net income	19,293	32,995
Depreciation and amortization	45,658	42,933
Gain on acquisition		(3,013)
Deferred income taxes	(1,523)	(2,569)
Provision for inventory obsolescence	589	338
Allowances for accounts receivable	832	2,099
Pension and postretirement plans expense	992	2,753
Other	(315)	247
Changes in assets and liabilities:		
Accounts and notes receivable, net	(6,999)	(6,164)
Pension contributions	(324)	(450)
Inventories, net	(2,004)	(6,375)
Other assets	13,650	(3,473)
Accounts payable and other accrued liabilities	3,523	(17,933)
NET CASH PROVIDED BY OPERATING ACTIVITIES	155,297	116,359
CASH FLOWS PROVIDED BY (DISBURSED FOR) INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(54,869)	(28,183)
Proceeds from sale of property, plant and equipment	749	731
Issuance of notes receivable	(5,086)	(6,610)
Proceeds from notes receivable	6,713	6,462
Acquisitions, net of cash acquired		(8,842)
Deconsolidation of variable interest entity (See Note 8)	(8,804)	
Other		(1,104)
NET CASH DISBURSED FOR INVESTING ACTIVITIES	(61,297)	(37,546)
CASH FLOWS PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES:		
Dividends paid	(34,342)	(30,056)
Exercise of stock options	4,495	1,824
Income tax benefit related to stock awards	770	1,352

Stock repurchases		(2,115)		(27,625)
Change in book overdraft		(578)		(3,708)
Proceeds from debt borrowings		381,000		456,000
Debt and capital lease obligation payments		(455,649)		(476,062)
Other				(402)
NET CASH DISBURSED FOR FINANCING ACTIVITIES		(106,419)		(78,677)
Net (decrease) increase in cash and cash equivalents		(12,419)		136
Cash and cash equivalents at beginning of period		18,948		19,964
Cash and cash equivalents at end of period	$	6,529	$	20,100

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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FLOWERS FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

INTERIM FINANCIAL STATEMENTS The accompanying unaudited condensed consolidated financial statements of Flowers Foods, Inc. (the company) have been prepared by the company s management in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, the unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the company s financial position, the results of its operations and its cash flows. The results of operations for the twelve and twenty-eight week periods ended July 17, 2010 and July 18, 2009 are not necessarily indicative of the results to be expected for a full fiscal year. The balance sheet at January 2, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the company s Annual Report on Form 10-K for the fiscal year ended January 2, 2010.

ESTIMATES The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The company believes the following critical accounting estimates affect its more significant judgments used in the preparation of its condensed consolidated financial statements: revenue recognition, derivative instruments, valuation of long-lived assets, goodwill and other intangibles, self-insurance reserves, income tax expense and accruals and pension obligations. These estimates are summarized in the company s Annual Report on Form 10-K for the fiscal year ended January 2, 2010.

REPORTING PERIODS The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2010 consists of 52 weeks, with the company s quarterly reporting periods as follows: first quarter ended April 24, 2010 (sixteen weeks), second quarter ended July 17, 2010 (twelve weeks), third quarter ending October 9, 2010 (twelve weeks) and fourth quarter ending January 1, 2011 (twelve weeks).

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

SIGNIFICANT CUSTOMER Following is the effect our largest customer, Wal-Mart/Sam s Club, had on the company s sales for the twelve and twenty-eight weeks ended July 17, 2010 and July 18, 2009. No other customer accounted for 10% or more of the company s sales.

	FOR THE TWELVE WEEKS ENDED		FOR THE TWENTY-EIGHT WEEKS ENDED	
	JULY 17, 2010	JULY 18, 2009	JULY 17, 2010	JULY 18, 2009
	(Percent of Sales)		(Percent of Sales)	
DSD	18.6%	18.8%	18.4%	18.2%
Warehouse delivery	3.5	2.8	3.2	2.9
Total	22.1%	21.6%	21.6%	21.1%

SIGNIFICANT ACCOUNTING POLICIES The following discussion provides the significant changes to our critical accounting policies from those disclosed in our Form 10-K filed for the year ended January 2, 2010.

Variable Interest Entities. In 2009, the Financial Accounting Standards Board (FASB) amended the consolidation principles associated with variable interest entities (VIE). The new accounting guidance resulted in a change in our accounting policy effective January 3, 2010. The new qualitative approach, generally, replaced the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in the VIE. The qualitative approach is focused on identifying

which company has both the power to direct the activities of a VIE that most significantly impact the entity s economic performance and the obligation to absorb losses of the entity or the right to receive benefits from the entity. As a result of this qualitative analysis, effective January 3, 2010, the company is no longer required to consolidate the VIE that delivers a significant portion of its fresh bakery products from the company s production facilities to outlying distribution centers under a transportation agreement. The company has elected to prospectively deconsolidate the VIE. Please see Note 8, *Variable Interest Entity*, for additional disclosure.

2. COMPREHENSIVE INCOME (LOSS)

The company s total comprehensive income presently consists of net income, adjustments for our derivative financial instruments accounted for as cash flow hedges, and various pension and other postretirement benefit related items. Total comprehensive income attributable to Flowers Foods, Inc., determined as net income adjusted by other comprehensive income and net income attributable to noncontrolling interest, was $43.3 million and $86.5 million for the twelve and twenty-eight weeks ended July 17, 2010, respectively. Total comprehensive income attributable to Flowers Foods, Inc. was $41.0 million and $85.6 million for the twelve and twenty-eight weeks ended July 18, 2009, respectively.

During the twenty-eight weeks ended July 17, 2010, changes to accumulated other comprehensive loss, net of income tax, were as follows (amounts in thousands):

Accumulated other comprehensive loss, January 2, 2010	$ (64,672)
Derivative transactions:	
Net deferred gains (losses) on closed contracts, net of income tax of $(5,891)	(9,411)
Reclassified to earnings, net of income tax of $7,428	11,865
Effective portion of change in fair value of hedging instruments, net of income tax of $5,590	8,930
Amortization of actuarial loss, net of income tax of $439	702
Minimum pension liability, net of income tax of $42	68
Amortization of prior service credits, net of income tax of $(36)	(58)
Accumulated other comprehensive loss, July 17, 2010	$ (52,576)

3. ACQUISITIONS

On October 17, 2009, the company acquired 100% of the outstanding shares of capital stock of Leo s Foods, Inc. (Leo s). Leo s operates one tortilla facility in Ft. Worth, Texas and makes an extensive line of flour and corn tortillas and tortilla chips that are sold to

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foodservice and institutional customers nationwide. This acquisition is recorded in the company s warehouse delivery segment and resulted in goodwill of $2.6 million, none of which is deductible for tax purposes.

On May 15, 2009, the company acquired substantially all the assets of a bakery mix operation in Cedar Rapids, Iowa. Based on the purchase price allocation, the fair value of the identifiable assets acquired and liabilities assumed exceeded the fair value of the consideration paid. As a result, we recognized a gain of $3.0 million in the second quarter of fiscal 2009, which is included in the line item Gain on acquisition within income from operations in the condensed consolidated statement of income for the twelve and twenty-eight weeks ended July 18, 2009. We believe the gain on acquisition resulted from the seller s strategic intent to exit a non-core business operation. This acquisition is recorded in the company s warehouse delivery segment.

4. GOODWILL AND OTHER INTANGIBLES

The changes in the carrying amount of goodwill for the twenty-eight weeks ended July 17, 2010, are as follows (amounts in thousands):

	DSD	Warehouse delivery	Total
Balance as of January 2, 2010	$ 194,581	$ 7,101	$ 201,682
Adjustment for deconsolidation of VIE (Note 8)	(1,529)		(1,529)
Balance as of July 17, 2010	$ 193,052	$ 7,101	$ 200,153

As of July 17, 2010 and January 2, 2010, the company had the following amounts related to amortizable intangible assets (amounts in thousands):

	July 17, 2010			January 2, 2010		
Asset	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value
Trademarks	$ 35,268	$ 3,974	$ 31,294	$ 35,268	$ 3,144	$ 32,124
Customer relationships	75,434	11,858	63,576	75,434	9,738	65,696
Non-compete agreements	1,874	1,333	541	1,874	1,309	565
Distributor relationships	2,600	333	2,267	2,600	240	2,360
Supply agreement	1,050	404	646	1,050	215	835
Total	$ 116,226	$ 17,902	$ 98,324	$ 116,226	$ 14,646	$ 101,580

There is an additional $1.5 million indefinite life intangible asset separately identified from goodwill.

Net amortization expense for the twelve weeks ended July 17, 2010 and July 18, 2009 were as follows (amounts in thousands):

	2010	2009
Amortizable intangible assets expense	$ 1,395	$ 1,391
Amortizable intangible liabilities (income)	(10)	(10)
Total, net	$ 1,385	$ 1,381

Net amortization expense for the twenty-eight weeks ended July 17, 2010 and July 18, 2009 were as follows (amounts in thousands):

	2010	2009
Amortizable intangible assets expense	$ 3,256	$ 3,105
Amortizable intangible liabilities (income)	(24)	(24)
Total, net	$ 3,232	$ 3,081

Estimated net amortization of intangibles for the remainder of fiscal 2010 and the next four years is as follows (amounts in thousands):

	Amortization of Intangibles, net
Remainder of 2010	$ 2,771
2011	$ 5,948
2012	$ 5,677
2013	$ 5,488
2014	$ 5,389

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5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable and short-term debt approximates fair value because of the short-term maturity of the instruments. Notes receivable are entered into in connection with the purchase of distributors territories by independent distributors. These notes receivable are recorded in the condensed consolidated balance sheet at carrying value which represents the closest approximation of fair value. In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As a result, the appropriate interest rate that should be used to estimate the fair value of the distributor notes is the prevailing market rate at which similar loans would be made to distributors with similar credit ratings and for the same maturities. However, the company utilizes approximately 3,600 independent distributors all with varied financial histories and credit risks. Considering the diversity of credit risks among the independent distributors, the company has no method to accurately determine a market interest rate to apply to the notes. The territories are generally financed over ten years bearing an interest rate of 12% and the distributor notes are collateralized by the independent distributors territories.

Interest income for the distributor notes receivable was as follows (amounts in thousands):

	Interest Income
For the twelve weeks ended July 17, 2010	$ 2,940
For the twelve weeks ended July 18, 2009	$ 2,986
For the twenty-eight weeks ended July 17, 2010	$ 6,855
For the twenty-eight weeks ended July 18, 2009	$ 7,040

At July 17, 2010 and January 2, 2010, respectively, the carrying value of the distributor notes was as follows (amounts in thousands):

	July 17, 2010	January 2, 2010
Distributor notes receivable	$ 105,440	$ 107,067
Current portion of distributor notes receivable recorded in accounts and notes receivable, net	12,794	12,610
Long-term portion of distributor notes receivable	$ 92,646	$ 94,457

At July 17, 2010 and January 2, 2010, the company has evaluated the collectibility of the distributor notes and determined that a reserve is not necessary. Payments on these distributor notes are collected by the company weekly in the distributor settlement process.

6. DERIVATIVE FINANCIAL INSTRUMENTS

In the first fiscal quarter of fiscal 2008, the company began measuring the fair value of its derivative portfolio using the fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal market for that asset or liability. These measurements are classified into a hierarchy by the inputs used to perform the fair value calculation as follows:

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

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

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

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

COMMODITY PRICE RISK

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

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As of July 17, 2010, the company s hedge portfolio contained commodity derivatives with a net fair value of $12.0 million, which is recorded in the following accounts with fair values measured as indicated (amounts in millions):

	Level 1	Level 2	Level 3	Total
Assets:				
Other current	$ 14.3	$	$	$ 14.3
Other long-term	0.2			0.2
Total	14.5			14.5
Liabilities:				
Other current		(2.0)		(2.0)
Other long-term		(0.5)		(0.5)
Total		(2.5)		(2.5)
Net Fair Value	$ 14.5	$ (2.5)	$	$ 12.0

The positions held in the portfolio are used to hedge economic exposure to changes in various raw material prices and effectively fix the price, or limit increases in prices, for a period of time extending into fiscal 2012. These instruments are designated as cash-flow hedges. The effective portion of changes in fair value for these derivatives is recorded each period in other comprehensive income (loss), and any ineffective portion of the change in fair value is recorded to current period earnings in selling, marketing and administrative expenses. The company held no commodity derivatives at July 17, 2010 or January 2, 2010 that did not qualify for hedge accounting.

As of July 17, 2010, the balance in accumulated other comprehensive loss related to commodity derivative transactions was $(4.4) million. Of this total, approximately $(4.6) million, $(2.9) million and $0.1 million were related to instruments expiring in 2010, 2011 and 2012, respectively, and $3.0 million was related to deferred losses on cash flow hedge positions.

INTEREST RATE RISK

The company entered interest rate swaps with initial notional amounts of $85.0 million and $65.0 million to fix the interest rate on the $150.0 million term loan entered into on August 1, 2008 to fund the acquisitions of ButterKrust and Holsum. The notional amounts match the scheduled quarterly principal payments on the $150.0 million term loan so that the remaining outstanding term loan balance at any reporting date is fully covered by the swap arrangements through the August 2013 maturity of the term loan. In addition, on October 27, 2008, the company entered an interest rate swap with a notional amount of $50.0 million to fix the interest rate through September 30, 2009 on $50.0 million of borrowings outstanding under the company s unsecured credit facility.

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

As of July 17, 2010, the fair value of the interest rate swaps was $(7.9) million, which is recorded in the following accounts with fair values measured as indicated (amounts in millions):

	Level 1	Level 2	Level 3	Total
Assets:				
Other current	$	$	$	$

Other long-term				
Total				
Liabilities:				
Other current		(4.0)		(4.0)
Other long-term		(3.9)		(3.9)
Total		(7.9)		(7.9)
Net Fair Value	$	$ (7.9)	$	$ (7.9)

During the twelve weeks ended July 17, 2010, interest expense of $1.1 million was recognized due to periodic settlements of the swaps. During the twenty-eight weeks ended July 17, 2010, interest expense of $2.6 million was recognized due to periodic settlements of the swaps. During the twelve weeks ended July 18, 2009, interest expense of $1.2 million was recognized due to periodic settlements of the swaps. During the twenty-eight weeks ended July 18, 2009, interest expense of $ 2.7 million was recognized due to periodic settlements of the swaps.

As of July 17, 2010, the balance in accumulated other comprehensive loss related to interest rate derivative transactions was $4.9

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million. Of this total, approximately $1.2 million, $2.1 million, $1.3 million, and $0.3 million was related to instruments expiring in fiscal 2010 through 2013, respectively.

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

Derivatives designated as hedging instruments	Derivative Assets				Derivative Liabilities			
	July 17, 2010		January 2, 2010		July 17, 2010		January 2, 2010	
	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value	Balance Sheet location	Fair Value
Interest rate contracts		$		$	Other current liabilities	$ 3,979	Other current liabilities	$ 4,271
Interest rate contracts					Other long term liabilities	3,919	Other long term liabilities	2,459
Commodity contracts	Other current assets	14,326	Other current assets	2,501	Other current liabilities	1,978	Other current liabilities	6,143
Commodity contracts	Other long term assets	146	Other long term assets		Other long term liabilities	527	Other long term liabilities	78
Total		$ 14,472		$ 2,501		$ 10,403		$ 12,951

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

Derivatives in Cash Flow Hedge Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the twelve weeks ended		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the twelve weeks ended	
	July 17, 2010	July 18, 2009		July 17, 2010	July 18, 2009
Interest rate contracts	$ 584	$ 794	Interest expense (income)	$	$
Commodity contracts			Selling, distribution and administrative		(353)
Commodity contracts	(5,096)	(2,675)	Production costs(1)	(4,777)	(12,768)

Total	$ (4,512)	$ (1,881)		$ (4,777)	$ (13,121)

Derivatives in Cash Flow Hedge Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the twenty-eight weeks ended		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the twenty-eight weeks ended	
	July 17, 2010	July 18, 2009		July 17, 2010	July 18, 2009
Interest rate contracts	$ 718	$ 1,460	Interest expense (income)	$	$
Commodity contracts			Selling, distribution and administrative		(875)
Commodity contracts	(1,199)	(638)	Production costs(1)	(11,865)	(19,417)
Total	$ (481)	$ 822		$ (11,865)	$ (20,292)

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

Derivatives in Cash	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)(net of tax)

Flow Hedge Relationships	Portion and Amount Excluded from Effectiveness Testing)	For the twenty-eight weeks ended July 17, 2010	July 18, 2009
Interest rate contracts	Selling, distribution and administrative expenses	$	$
Commodity contracts	Selling, distribution and administrative expenses		(617)
Total		$	$ (617)

As of July 17, 2010, the company had the following outstanding financial contracts that were entered to hedge commodity and interest rate risk:

Derivative in Cash Flow Hedge Relationship	Notional amount (millions)
Interest rate contracts	$ 123.8
Wheat contracts	64.4
Soybean Oil contracts	16.0
Natural gas contracts	14.0
Total	$ 218.2

The interest rate contracts have multiple settlements to match the amortization of the term loan. The notional amount of $123.8 million represents the current settlement notional amount. Note 7, *Debt and Other Obligations*, below provides details on the term loan. The company s derivative instruments contain no credit-risk-related contingent features at July 17, 2010.

7. DEBT AND OTHER OBLIGATIONS

Long-term debt and capital leases consisted of the following at July 17, 2010 and January 2, 2010 (amounts in thousands):

	JULY 17, 2010	JANUARY 2, 2010
Unsecured credit facility	$ 25,000	$ 89,000
Unsecured term loan	123,750	131,250
Capital lease obligations	11,122	26,555
Other notes payable	2,701	4,863
	162,573	251,668
Less current maturities	25,340	25,763
Total long-term debt and capital leases	$ 137,233	$ 225,905

On August 1, 2008, the company entered into a Credit Agreement (term loan) with various lending parties for the purpose of completing acquisitions. The term loan provides for an amortizing $150.0 million of borrowings through the maturity date of August 4, 2013. Principal payments are due quarterly under the term loan beginning on December 31, 2008 at an annual amortization of 10% of the principal balance for the first two years, 15% during the third year, 20% during the fourth year, and 45% during the fifth year. The term loan includes certain customary restrictions, which, among other things, require maintenance of financial covenants and limit encumbrance of assets and creation of indebtedness. Restrictive financial covenants include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. The company believes that, given its current cash position, its cash flow from operating activities and its available credit capacity, it can comply with the current terms of the term loan and can meet presently foreseeable financial requirements. As of July 17, 2010 and January 2, 2010, the company was in compliance with all restrictive financial covenants under the term loan.

Interest is due quarterly in arrears on outstanding borrowings at a customary Eurodollar rate or the base rate plus the applicable margin. The underlying rate is defined as the rate offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranges from 0.0% to 1.375% for base rate loans and from 0.875% to 2.375% for Eurodollar loans and is based on the company s leverage ratio. The company paid financing costs of $0.8 million in connection with the term loan, which is being amortized over the life of the term loan.

The company has a five-year, $250.0 million unsecured revolving loan facility (the credit facility) expiring October 5, 2012. Proceeds from the credit facility may be used for working capital and general corporate purposes, including acquisition financing, refinancing of indebtedness and share repurchases. The credit facility includes certain customary restrictions, which, among other things, require maintenance of financial covenants and limit encumbrance of assets and creation of indebtedness. Restrictive financial covenants include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. The company believes that, given its current cash position, its cash flow from operating activities and its available credit capacity, it can comply with the current terms of the credit facility and can meet presently foreseeable financial requirements. As of July 17, 2010 and January 2, 2010, the company was in compliance with all restrictive financial covenants under its credit facility.

Interest is due quarterly in arrears on any outstanding borrowings at a customary Eurodollar rate or the base rate plus the applicable margin. The underlying rate is defined as rates offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranges from 0.0% to 0.30% for base rate loans and from 0.40% to 1.275% for Eurodollar loans. In addition, a facility fee ranging from 0.10% to 0.35% is due quarterly on all commitments under the credit facility. Both the interest margin and the facility fee are based on the company s leverage ratio. Financing costs of $0.9 million were deferred and are being amortized over the term of the credit facility.

Book overdrafts occur when checks have been issued but have not been presented to the bank for payment. These bank accounts allow us to delay funding of issued checks until the checks are presented for payment. A delay in funding results in a temporary source of financing from the bank. The activity related to book overdrafts is shown as a financing activity in our condensed consolidated statements of cash flows. Book overdrafts are included in other current liabilities on our condensed consolidated balance sheets. As of July 17, 2010 and January 2, 2010, the book overdraft balance was $10.5 million and $11.1 million, respectively.

8. VARIABLE INTEREST ENTITY

The company maintains a transportation agreement with an entity that transports a significant portion of the company s fresh bakery products from the company s production facilities to outlying distribution centers. The company represents a significant portion of the entity s revenue. This entity qualifies as a VIE. Under previous accounting guidance, we consolidated the VIE in our condensed consolidated financial statements from the first quarter of 2004 through the fourth quarter of 2009 because during that time the

company was considered to be the primary beneficiary. Under the revised principles, which became effective January 3, 2010, we have determined that the company is no longer the primary beneficiary and we deconsolidated the VIE in our financial statements. The VIE does not affect the line item *Net income attributable to Flowers Foods, Inc.* since the company has no interest in any net earnings or losses of the VIE through equity participation. The VIE has collateral that is sufficient to meet its capital lease and other debt obligations and the owner of the VIE personally guarantees the obligations of the VIE. The VIE s creditors have no recourse against the general credit of the company.

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

As part of the deconsolidation of the VIE, the company concluded that certain of the trucks and trailers the VIE uses for distributing our products from the manufacturing facilities to the distribution centers qualify as right to use leases. The amount for property, plant and equipment and capital lease obligations was $11.9 million at January 3, 2010. As of July 17, 2010, there was $10.1 million in net property, plant and equipment and capital lease obligations associated with the right to use leases.

Following is the effect of the VIE during the twelve and twenty-eight weeks ended July 18, 2009:

	TWELVE WEEKS ENDED JULY 18, 2009		TWENTY-EIGHT WEEKS ENDED JULY 18, 2009	
	VIE	% OF TOTAL	VIE	% OF TOTAL
	(Dollars in thousands)			
Assets as of respective period ends	$34,349	2.5%	$ 34,349	2.5%
Sales	$ 3,088	0.5%	$ 4,616	0.3%
Income before income taxes	$ 756	1.5%	$ 1,208	1.1%

The assets consist primarily of $24.0 million as of July 18, 2009 of transportation equipment recorded as capital lease obligations.

9. LITIGATION

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

On July 23, 2008, a wholly-owned subsidiary of the company filed a lawsuit against Hostess Brands, Inc. (Hostess) (formerly Interstate Bakeries Corporation) in the United States District Court for the Northern District of Georgia. The complaint alleges that Hostess is infringing upon Flowers *Nature s Own* trademarks by using or intending to use the *Nature s Pride* trademark. Flowers asserts that Hostess sale or intended sale of baked goods under the *Nature s Pride* trademark is likely to cause confusion with, and likely to dilute the distinctiveness of, the *Nature s Own* mark and constitutes unfair competition and deceptive trade practices. Flowers is seeking actual damages, an accounting of Hostess profits from its sales of *Nature s Pride* products, and injunctive relief.

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

10. EARNINGS PER SHARE

The following is a reconciliation of net income attributable to Flowers Foods, Inc. and weighted average shares for calculating basic and diluted earnings per common share for the twelve and twenty-eight weeks ended July 17, 2010 and July 18, 2009 (amounts in thousands, except per share data):

	FOR THE TWELVE WEEKS ENDED		FOR THE TWENTY-EIGHT WEEKS ENDED	
	JULY 17, 2010	JULY 18, 2009	JULY 17, 2010	JULY 18, 2009
Net income attributable to Flowers Foods, Inc.	$ 33,756	$ 30,341	$ 74,443	$ 67,722
Dividends on restricted shares not expected to vest*				
Net income attributable to common and participating shareholders	$ 33,756	$ 30,341	$ 74,443	$ 67,722
Basic Earnings Per Common Share:				
Weighted average shares outstanding for common stock	91,399	91,727	91,314	92,061
Weighted average shares outstanding for participating securities	204	414	240	413
Basic weighted average shares outstanding per common share	91,603	92,141	91,554	92,474
Basic earnings per common share attributable to Flowers Foods, Inc. common shareholders	$ 0.37	$ 0.33	$ 0.81	$ 0.73
Diluted Earnings Per Common Share:				
Basic weighted average shares outstanding per common share	91,603	92,141	91,554	92,474
Add: Shares of common stock assumed issued upon exercise of stock options and vesting of restricted stock	755	489	762	505
Diluted weighted average shares outstanding per common share	92,358	92,630	92,316	92,979
Diluted earnings per common share attributable to Flowers Foods, Inc. common shareholders	$ 0.37	$ 0.33	$ 0.81	$ 0.73

* The company expects all

restricted share awards outstanding at July 17, 2010 and July 18, 2009 to vest.

Stock options to purchase 1,129,817 shares and 1,841,417 shares of common stock were not included in the computation of diluted earnings per share for the twelve weeks ended July 17, 2010 and July 18, 2009, respectively, because their effect would have been anti-dilutive. Stock options to purchase 2,119,163 shares and 1,841,417 shares of common stock were not included in the computation of diluted earnings per share for the twenty-eight weeks ended July 17, 2010 and July 18, 2009, respectively, because their effect would have been anti-dilutive.

11. STOCK BASED COMPENSATION

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

Stock Options

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

Grant date	**2/9/2010**	**2/9/2009**	**2/4/2008**
Shares granted	1,136	993	850
Exercise price	25.01	23.84	24.75
Vesting date	2/9/2013	2/9/2012	2/4/2011
Fair value per share ($)	5.54	5.87	5.80
Dividend yield (%)(1)	3.00	2.20	1.90
Expected volatility (%)(2)	30.60	31.80	27.30
Risk-free interest rate (%)(3)	2.35	2.00	2.79
Expected option life (years)(4)	5.00	5.00	5.00
Outstanding at July 17, 2010	1,130	989	844

1. Dividend yield estimated yield based on the historical dividend payment for the four most recent dividend payments prior to the grant date.

2. Expected volatility based on historical

volatility over the expected term using daily stock prices.

3. Risk-free interest rate United States Treasury Constant Maturity rates as of the grant date over the expected term.

4. Expected option life The 2008, 2009, and 2010 grant assumptions are based on the simplified formula determined in accordance with Staff Accounting Bulletin No. 110. The company does not have sufficient historical exercise behavior data to reasonably estimate the expected option life.

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The stock option activity for the twenty-eight weeks ended July 17, 2010 pursuant to the EPIP is set forth below (amounts in thousands, except price data):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 2, 2010	3,734	$ 20.34		
Granted	1,136	$ 25.01		
Exercised	(292)	$ 8.66		
Forfeited	(13)	$ 24.58		
Outstanding at July 17, 2010	4,565	$ 21.80	4.73	$ 12,712
Exercisable at July 17, 2010	1,631	$ 16.88	3.05	$ 12,188

As of July 17, 2010, all options outstanding under the EPIP had an average exercise price of $21.80 and a weighted average remaining contractual life of 4.73 years.

As of July 17, 2010, there was $8.2 million of total unrecognized compensation expense related to outstanding stock options. This cost is expected to be recognized on a straight-line basis over a weighted-average period of 1.6 years.

The cash received, the windfall tax benefits, and intrinsic value from stock option exercises for the twenty-eight weeks ended July 17, 2010 and July 18, 2009 were as follows (amounts in thousands):

	July 17, 2010	July 18, 2009
Cash received from option exercises	$ 4,495	$ 1,824
Cash tax windfall, net	$ 570	$ 918
Intrinsic value of stock options exercised	$ 2,796	$ 2,709

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

Performance-Contingent Restricted Stock

Certain key employees have been granted performance-contingent restricted stock. The 2009 and 2010 awards generally vest two years from the date of grant and the 2009 award requires the return on invested capital to exceed the weighted average cost of capital by 2.5% (the ROI Target) over the two fiscal years immediately preceding the vesting date. The 2010 award requires the ROI target to be 3.75% over the two fiscal years immediately preceding the vesting date. If the ROI Target is not met the awards are forfeited. Furthermore, each grant of performance-contingent restricted stock will be adjusted as set forth below:

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

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

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

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

In connection with the vesting of 209,950 shares of restricted stock granted in February 2008, during the twenty-eight weeks ended July 17, 2010, an additional 41,990 common shares were issued in the aggregate to these certain key employees because the company exceeded the S&P TSR by the maximum amount.

The performance-contingent restricted stock generally vests immediately if the grantee dies or becomes disabled. However, at retirement the grantee will receive a pro-rata number of shares through the grantee s retirement date at the normal vesting date. In addition, the performance-contingent restricted stock will immediately vest at the grant date award level without adjustment if the company undergoes a change in control. During the vesting period, the grantee is treated as a normal shareholder with respect to dividend and voting rights on the restricted shares for the 2009 grant. The 2010 grant does not include the right to receive dividends until vesting. Dividends declared and paid during the vesting period will accrue and will be paid at vesting. The fair value estimate was determined using a *Monte Carlo* simulation model, which utilizes multiple input variables to determine the probability of the company achieving the market condition discussed above. Inputs into the model included the following for the company and comparator companies: (i) total stockholder return from the beginning of the performance cycle through the measurement date; (ii) volatility; (iii) risk-free interest rates; and (iv) the correlation of the comparator companies total stockholder return. The inputs are based on historical capital market data.

The following restricted stock awards have been granted under the EPIP since fiscal 2007 (amounts in thousands, except price data):

Grant date	**2/9/2010**	**2/9/2009**	**2/4/2008**
Shares granted	179	204	210
Vesting date	2/9/2012	2/9/2011	2/4/2010
Fair value per share	$ 26.38	$ 24.96	$ 27.03
Expense during the twelve weeks ended July 17, 2010	$ 541	$ 582	$
Expense during the twelve weeks ended July 18, 2009	$	$ 588	$ 655
Expense during the twenty-eight weeks ended July 17, 2010	$ 1,085	$ 1,366	$ 218
Expense during the twenty-eight weeks ended July 18, 2009	$	$ 1,176	$ 1,528

A summary of the status of the company s nonvested shares as of July 17, 2010, and changes during the twenty-eight weeks ended July 17, 2010, is presented below (amounts in thousands, except price data):

	Shares	**Weighted Average Grant Date Fair Value**
Nonvested at January 2, 2010	414	$ 26.01
Granted	179	$ 26.38
Vested	(210)	$ 27.03
Forfeited	(2)	$ 25.73
Nonvested at July 17, 2010	381	$ 25.62

As of July 17, 2010, there was $5.0 million of total unrecognized compensation cost related to nonvested restricted stock granted by the EPIP. That cost is expected to be recognized over a weighted-average period of 1.0 years. The total fair value of shares vested during the twenty-eight weeks ended July 17, 2010 was $5.1 million.

Stock Appreciation Rights

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

The fair value of the rights at July 17, 2010 ranged from $8.47 to $22.02. The following assumptions were used to determine fair value of the rights discussed above using the *Black-Scholes* option-pricing model at July 17, 2010:

dividend yield 3.0%; expected volatility 30.0%; risk-free interest rate 1.71% and expected life of 0.55 years to 2.95 years. During the twelve weeks ended July 17, 2010 and July 18, 2009 the company recorded income of $0.3 million and $0.2 million, respectively, related to these rights. During the twenty-eight weeks ended July 17, 2010 and July 18, 2009 the company recorded (expense) income of $(0.1) million and $0.2 million, respectively, related to these rights.

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The rights activity for the twenty-eight weeks ended July 17, 2010 is set forth below (amounts in thousands except price data):

	Rights	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Current Intrinsic Value
Outstanding at January 2, 2010	231	$ 11.14		
Rights exercised				
Rights forfeited				
Outstanding at July 17, 2010	231	$ 11.14	3.38	$ 3,070

Deferred Stock

Pursuant to the EPIP, the company allows non-employee directors to convert their retainers into deferred stock. The deferred stock has a minimum two year vesting period and will be distributed to the individual at a time designated by the individual at the date of conversion. During the first quarter of fiscal 2010 an aggregate of 17,960 shares were converted. The company records compensation expense for this deferred stock over the two-year minimum vesting period based on the closing price of the company s common stock on the date of conversion. During the first and second quarter of fiscal 2010 a total of 5,540 shares were exercised for non-employee retainer conversions granted in 2008.

Pursuant to the EPIP non-employee directors also receive annual grants of deferred stock. This deferred stock vests over one year from the grant date. During the second quarter of fiscal 2010, non-employee directors were granted an aggregate of 44,220 shares of deferred stock. There was an additional grant of 1,860 shares during the first quarter of fiscal 2010 based on a pro-rated share amount for a new director whose term began on January 1, 2010. The deferred stock will be distributed to the grantee at a time designated by the grantee at the date of grant. Compensation expense is recorded on this deferred stock over the one year minimum vesting period. During the first and second quarter of fiscal 2010 a total of 28,380 shares were exercised for deferred shares issued under the fiscal 2009 grant.

The deferred stock activity for the twenty-eight weeks ended July 17, 2010 is set forth below (amounts in thousands, except price data):

	Shares	Weighted Average Grant Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 2, 2010	130	$ 21.90		
Deferred stock issued	64	$ 23.11		
Deferred stock exercised	(34)	$ 20.57		
Outstanding at July 17, 2010	160	$ 22.66	0.78	$ 317

The following table summarizes the company s stock based compensation expense (income) for the twelve and twenty-eight week periods ended July 17, 2010 and July 18, 2009, respectively (amounts in thousands):

FOR THE TWELVE WEEKS ENDED	FOR THE TWENTY-EIGHT WEEKS ENDED

	JULY 17, 2010	**JULY 18, 2009**	**JULY 17, 2010**	**JULY 18, 2009**
Stock options	$ 1,544	$ 1,205	$ 3,954	$ 2,661
Restricted stock	1,123	1,243	2,669	2,874
Stock appreciation rights	(259)	(245)	108	(234)
Deferred stock	321	311	751	740
Total stock based compensation	$ 2,729	$ 2,514	$ 7,482	$ 6,041

12. POST-RETIREMENT PLANS

The following summarizes the company s balance sheet related pension and other postretirement benefit plan accounts at July 17, 2010 as compared to accounts at January 2, 2010 (amounts in thousands):

	AS OF	
	JULY 17, 2010	JANUARY 2, 2010
Noncurrent benefit asset	$	$
Current benefit liability	$ 841	$ 841
Noncurrent benefit liability	$ 67,186	$ 68,140
Accumulated other comprehensive loss	$ 52,097	$ 52,808

Defined Benefit Plans

The company has trusteed, noncontributory defined benefit pension plans covering certain employees. The benefits are based on years of service and the employees career earnings. The plans are funded at amounts deductible for income tax purposes but not less than the minimum funding required by the Employee Retirement Income Security Act of 1974 (ERISA). As of April 24, 2010, the assets of the plans included certificates of deposit, marketable equity securities, mutual funds, corporate and government debt securities, private and public real estate partnerships, other diversifying strategies and annuity contracts. Effective January 1, 2006, the company curtailed the defined benefit plan that covered the majority of its workforce. Benefits under this plan were frozen, and no future benefits will accrue under this plan. The company continues to maintain a plan that covers a small number of union employees. During the twenty-eight weeks ended July 17, 2010 the company contributed $0.3 million to company pension plans.

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

	FOR THE TWELVE WEEKS ENDED		FOR THE TWENTY-EIGHT WEEKS ENDED	
	JULY 17, 2010	JULY 18, 2009	JULY 17, 2010	JULY 18, 2009
Service cost	$ 89	$ 72	$ 209	$ 168
Interest cost	4,308	4,309	10,051	10,053
Expected return on plan assets	(4,769)	(4,370)	(11,127)	(10,196)
Amortization of net loss	503	629	1,173	1,468
Total net periodic benefit cost	$ 131	$ 640	$ 306	$ 1,493

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

Post-retirement Benefit Plan

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

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

	FOR THE TWELVE WEEKS ENDED		FOR THE TWENTY-EIGHT WEEKS ENDED	

	JULY 17, 2010	JULY 18, 2009	JULY 17, 2010	JULY 18, 2009
Service cost	$ 143	$ 198	$ 340	$ 463
Interest cost	200	257	471	599
Amortization of prior service (credit) cost	(62)	77	(94)	179
Amortization of net (gain) loss	(19)	8	(31)	19
Total net periodic benefit cost	$ 262	$ 540	$ 686	$ 1,260

401(k) Retirement Savings Plan

The Flowers Foods 401(k) Retirement Savings Plan (the Plan) covers substantially all of the company s employees who have completed certain service requirements. The cost and contributions for those employees who also participate in the defined benefit pension plan is 25% of the first $400 contributed by the employee. Prior to January 1, 2006, the costs and contributions for employees

who do not participate in the defined benefit pension plan was 2% of compensation and 50% of the employees contributions, up to 6% of compensation. Effective January 1, 2006, the costs and contributions for employees who do not participate in the defined benefit pension plan increased to 3% of compensation and 50% of the employees contributions, up to 6% of compensation. During the twelve weeks ended July 17, 2010 and July 18, 2009, the total cost and contributions were $3.9 million and $3.5 million, respectively. During the twenty-eight weeks ended July 17, 2010 and July 18, 2009, the total cost and contributions were $9.4 million and $8.7 million, respectively.

The company also has several smaller 401(k) Plans associated with recent acquisitions that will be merged into the Flowers Foods 401(k) Retirement Savings Plan after receipt of final determination letters.

13. INCOME TAXES

The company s effective tax rate for the twelve and twenty-eight weeks ended July 17, 2010 was 35.3% and 35.5% respectively. This rate is lower than the fiscal 2009 annual effective tax rate of 35.6% which included the benefit of favorable discrete items and the non-taxable earnings of the previously consolidated variable interest entity. The company s current effective rate is favorably impacted by the increase in the Section 199 production activities deduction. The difference in the effective rate and the statutory rate is primarily due to state income taxes, and the Section 199 qualifying production activities deduction.

During the twelve and twenty-eight weeks ended July 17, 2010, the company s activity with respect to its uncertain tax positions and the related interest expense accrual was immaterial. At this time, we do not anticipate significant changes to the amount of gross unrecognized tax benefits over the next twelve months.

14. SEGMENT REPORTING

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

	FOR THE TWELVE WEEKS ENDED		FOR THE TWENTY-EIGHT WEEKS ENDED	
	JULY 17, 2010	JULY 18, 2009	JULY 17, 2010	JULY 18, 2009
SALES:				
DSD	$ 495,540	$ 514,293	$ 1,149,318	$ 1,187,286
Warehouse delivery	143,590	132,807	328,535	307,438
Eliminations: Sales from warehouse delivery to DSD	(25,793)	(25,834)	(61,886)	(61,733)
Sales from DSD to warehouse delivery	(5,621)	(6,818)	(13,225)	(11,536)
	$ 607,716	$ 614,448	$ 1,402,742	$ 1,421,455
DEPRECIATION AND AMORTIZATION:				
DSD	$ 15,463	$ 14,952	$ 35,565	$ 34,489
Warehouse delivery	4,533	3,661	10,069	8,307
Unallocated	25	43	24	137
	$ 20,021	$ 18,656	$ 45,658	$ 42,933
INCOME FROM OPERATIONS:				
DSD	$ 47,787	$ 45,693	$ 108,470	$ 102,623

Warehouse delivery		11,841		12,108		25,374		26,332
Unallocated		(8,392)		(8,937)		(20,568)		(20,845)
	$	51,236	$	48,864	$	113,276	$	108,110
NET INTEREST INCOME	$	956	$	180	$	2,087	$	639
INCOME BEFORE INCOME TAXES	$	52,192	$	49,044	$	115,363	$	108,749

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

	For the twelve weeks ended July 17, 2010			For the twelve weeks ended July 18, 2009		
	DSD	Warehouse delivery	Total	DSD	Warehouse delivery	Total
Branded Retail	$ 289,901	$ 24,675	$ 314,576	$ 291,449	$ 31,219	$ 322,668
Store Branded Retail	81,335	25,435	106,770	89,536	13,062	102,598
Non-retail and Other	118,683	67,687	186,370	126,490	62,692	189,182
Total	$ 489,919	$ 117,797	$ 607,716	$ 507,475	$ 106,973	$ 614,448

	For the twenty-eight weeks ended July 17, 2010			For the twenty-eight weeks ended July 18, 2009		
	DSD	Warehouse delivery	Total	DSD	Warehouse delivery	Total
Branded Retail	$ 669,852	$ 65,653	$ 735,505	$ 666,349	$ 71,404	$ 737,753
Store Branded Retail	181,003	47,192	228,195	199,597	32,011	231,608
Non-retail and Other	285,238	153,804	439,042	309,804	142,290	452,094
Total	$ 1,136,093	$ 266,649	$ 1,402,742	$ 1,175,750	$ 245,705	$ 1,421,455

15. SUBSEQUENT EVENTS

The company has evaluated subsequent events since July 17, 2010, the date of these financial statements. There were no events or transactions discovered during this evaluation that require recognition or disclosure in the financial statements.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of the company as of and for the twelve and twenty-eight week periods ended July 17, 2010 should be read in conjunction with the company s Annual Report on Form 10-K for the fiscal year ended January 2, 2010.

OVERVIEW:

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

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

Sales are principally affected by pricing, quality, brand recognition, new product introductions and product line extensions, marketing and service. The company manages these factors to achieve a sales mix favoring its higher-margin branded products, while using store brand products to absorb overhead costs and maximize use of production capacity. During the second quarter and first half of 2010, our sales were negatively impacted by the competitive landscape and higher promotional activity within the baking industry. Sales for the quarter ended July 17, 2010 decreased 1.1% from the quarter ended July 18, 2009. This decrease was primarily due to negative pricing and mix shifts of 3.5% and the effect of the variable interest entity (VIE) deconsolidation, which negatively impacted sales by 0.5%. Acquisitions contributed 1.0% and volume increased 1.9%, partially offsetting these decreases. For the twenty-eight weeks ended July 17, 2010 sales decreased 1.3% from the same period of fiscal 2009. The decrease was primarily due to negative pricing and mix shifts of 2.9% and the effect of the VIE deconsolidation which negatively impacted sales 0.3%. These decreases were partially offset by acquisition sales and volume increases of 1.5% and 0.4%, respectively.

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

For the twelve weeks ended July 17, 2010, diluted net income per share was $0.37 as compared to $0.33 per share for the twelve weeks ended July 18, 2009, a 12.1% increase. For the twelve weeks ended July 17, 2010, net income attributable to Flowers Foods, Inc. was $33.8 million, an 11.3% increase over $30.3 million reported for the twelve weeks ended July 18, 2009.

For the twenty-eight weeks ended July 17, 2010, diluted net income per share was $0.81 as compared to $0.73 per share for the twenty-eight weeks ended July 18, 2009, a 11.0% increase. For the twenty-eight weeks ended July 17, 2010, net income attributable to Flowers Foods, Inc. was $74.4 million, a 9.9% increase over $67.7 million reported for the twenty-eight weeks ended July 18, 2009.

CRITICAL ACCOUNTING POLICIES:

Our financial statements are prepared in accordance with generally accepted accounting principles (GAAP). These principles are numerous and complex. Our significant accounting policies are summarized in the company s Annual Report on Form 10-K for the fiscal year ended January 2, 2010. In many instances, the application of GAAP requires management to make estimates or to apply subjective principles to particular facts and circumstances. A variance in

the estimates used or a variance in the application or interpretation of GAAP could yield a materially different accounting result. Please see our Form 10-K for the fiscal year ended January 2, 2010, for a discussion of the areas where we believe that the estimates, judgments or interpretations that we have made, if different, could yield the most significant differences in our financial statements. The following discussion provides the significant changes to our critical accounting policies from those disclosed in our Form 10-K filed for the year ended January 2, 2010.

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Variable Interest Entities. In 2009, the Financial Accounting Standards Board (FASB) amended the consolidation principles associated with VIE. The new accounting principles resulted in a change in our accounting policy effective January 3, 2010. The new qualitative approach, generally, replaced the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in the VIE. The qualitative approach is focused on identifying which company has both the power to direct the activities of a VIE that most significantly impact the entity s economic performance and the obligation to absorb losses of the entity or the right to receive benefits from the entity. As a result of this qualitative analysis, the company is no longer required to consolidate the VIE that delivers a significant portion of its fresh bakery products from the company s production facilities to outlying distribution centers under a transportation agreement. The company has elected to prospectively deconsolidate the VIE. Please see Note 8, *Variable Interest Entity*, of Notes to Condensed Consolidated Financial Statements of this Form 10-Q for additional disclosure.

RESULTS OF OPERATIONS:

Results of operations, expressed as a percentage of sales and the dollar and percentage change from period to period, for the twelve week periods ended July 17, 2010 and July 18, 2009, are set forth below (dollars in thousands):

	For the twelve weeks ended					
			Percentage of Sales		Increase (Decrease)	
	July 17, 2010	July 18, 2009	July 17, 2010	July 18, 2009	Dollars	%
Sales						
DSD	$ 489,919	$ 507,475	80.6	82.6	$ (17,556)	(3.5)
Warehouse delivery	117,797	106,973	19.4	17.4	10,824	10.1
Total	$ 607,716	$ 614,448	100.0	100.0	$ (6,732)	(1.1)
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)						
DSD (1)	$ 234,612	$ 256,022	47.9	50.5	$ (21,410)	(8.4)
Warehouse delivery(1)	83,941	77,317	71.3	72.3	6,624	8.6
Total	$ 318,553	$ 333,339	52.4	54.3	$ (14,786)	(4.4)
Selling, distribution and administrative expenses						
DSD(1)	$ 192,057	$ 190,808	39.2	37.6	$ 1,249	0.7
Warehouse delivery(1)	17,482	16,900	14.8	15.8	582	3.4
Corporate(2)	8,367	8,894			(527)	(5.9)
Total	$ 217,906	$ 216,602	35.9	35.3	$ 1,304	0.6
Depreciation and amortization						
DSD(1)	$ 15,463	$ 14,952	3.2	2.9	$ 511	3.4
Warehouse delivery(1)	4,533	3,661	3.8	3.4	872	23.8

Corporate(2)		25		43				(18)	(41.9)
Total	$	20,021	$	18,656	3.3	3.0	$	1,365	7.3
Gain on acquisition									
DSD(2)	$		$				$		
Warehouse delivery (1)				3,013		2.8		3,013	
Corporate (2)									
Total	$		$	3,013		0.5	$	3,013	
Income from operations									
DSD(1)	$	47,787	$	45,693	9.8	9.0	$	2,094	4.6
Warehouse delivery(1)		11,841		12,108	10.1	11.3		(267)	(2.2)
Corporate(2)		(8,392)		(8,937)				545	6.1
Total	$	51,236	$	48,864	8.4	8.0	$	2,372	4.9
Interest income, net	$	956	$	180	0.2	0.0	$	776	431.1
Income taxes	$	18,436	$	17,947	3.0	2.9	$	489	2.7
Net income	$	33,756	$	31,097	5.6	5.1	$	2,659	8.6
Net income attributable to noncontrolling interest	$		$	(756)		(0.1)	$	756	
Net income attributable to Flowers Foods, Inc.	$	33,756	$	30,341	5.6	4.9	$	3,415	11.3

1. As a percentage of revenue within the reporting segment.

2. The corporate segment has no revenues.

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Results of operations, expressed as a percentage of sales and the dollar and percentage change from period to period, for the twenty-eight week periods ended July 17, 2010 and July 18, 2009, are set forth below (dollars in thousands):

	For the twenty-eight weeks ended					
			Percentage of Sales		Increase (Decrease)	
	July 17, 2010	July 18, 2009	July 17, 2010	July 18, 2009	Dollars	%
Sales						
DSD	$ 1,136,093	$ 1,175,750	81.0	82.7	$ (39,657)	(3.4)
Warehouse delivery	266,649	245,705	19.0	17.3	20,944	8.5
Total	$ 1,402,742	$ 1,421,455	100.0	100.0	$ (18,713)	(1.3)
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)						
DSD (1)	$ 543,442	$ 588,649	47.8	50.1	$ (45,207)	(7.7)
Warehouse delivery(1)	189,909	174,152	71.2	70.9	15,757	9.0
Total	$ 733,351	$ 762,801	52.3	53.7	$ (29,450)	(3.9)
Selling, distribution and administrative expenses						
DSD(1)	$ 448,616	$ 449,989	39.5	38.3	$ (1,373)	(0.3)
Warehouse delivery(1)	41,297	39,927	15.5	16.2	1,370	3.4
Corporate(2)	20,544	20,708			(164)	(0.8)
Total	$ 510,457	$ 510,624	36.4	35.9	$ (167)	(0.0)
Depreciation and amortization						
DSD(1)	$ 35,565	$ 34,489	3.1	2.9	$ 1,076	3.1
Warehouse delivery(1)	10,069	8,307	3.8	3.4	1,762	21.2
Corporate(2)	24	137			(113)	(82.5)
Total	$ 45,658	$ 42,933	3.3	3.0	$ 2,725	6.3
Gain on acquisition						
DSD(1)	$	$			$	
Warehouse delivery (1)		3,013		1.2	3,013	
Corporate (2)						
Total	$	$ 3,013		0.2	$ 3,013	

Income from operations								
DSD(1)	$	108,470	$	102,623	9.5	8.7	$ 5,847	5.7
Warehouse delivery(1)		25,374		26,332	9.5	10.7	(958)	(3.6)
Corporate(2)		(20,568)		(20,845)			277	1.3
Total	$	113,276	$	108,110	8.1	7.6	$ 5,166	4.8
Interest income, net	$	2,087	$	639	0.1	0.0	$ 1,448	226.6
Income taxes	$	40,920	$	39,819	2.9	2.8	$ 1,101	2.8
Net income	$	74,443	$	68,930	5.3	4.8	$ 5,513	8.0
Net income attributable to noncontrolling interest	$		$	(1,208)		(0.1)	$ 1,208	
Net income attributable to Flowers Foods, Inc.	$	74,443	$	67,722	5.3	4.8	$ 6,721	9.9

1. As a percentage of revenue within the reporting segment.

2. The corporate segment has no revenues.

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CONSOLIDATED AND SEGMENT RESULTS

TWELVE WEEKS ENDED JULY 17, 2010 COMPARED TO TWELVE WEEKS ENDED JULY 18, 2009

Consolidated Sales.

Sales category	For the Twelve Weeks Ended July 17, 2010 $ (Amounts in thousands)	%	For the Twelve Weeks Ended July 18, 2009 $ (Amounts in thousands)	%	% Increase (Decrease)
Branded Retail	$ 314,576	51.8%	$ 322,668	52.5%	(2.5)%
Store Branded Retail	106,770	17.6	102,598	16.7	4.1%
Non-retail and Other	186,370	30.6	189,182	30.8	(1.5)%
Total	$ 607,716	100.0%	$ 614,448	100.0%	(1.1)%

The 1.1% decrease in sales was attributable to the following for all sales categories:

Percentage Point Change in Sales Attributed to:	Favorable (Unfavorable)
Pricing/Mix	(3.5)%
Volume	1.9%
VIE deconsolidation	(0.5)%
Acquisitions	1.0%
Total Percentage Change in Sales	(1.1)%

Sales category discussion

The decrease in branded retail sales was due primarily to overall pricing/mix declines and volume declines in branded white bread and multi-pak cake. The pricing/mix declines are being driven by competitive pricing and continued high promotional activity. These were partially offset by increased volume in branded soft variety as consumer preferences have switched from white bread and also volume increases from newly introduced sandwich rounds. The increase in store branded retail sales was due to increased volume in the store brand cake category, partially offset by decreases in store brand white bread and store brand soft variety. The decrease in non-retail and other sales was due primarily to the deconsolidation of the VIE and declines in foodservice volume, partially offset by contributions from the 2009 acquisitions.

Direct-Store-Delivery Sales.

Sales Category	For the Twelve Weeks Ended July 17, 2010 $ (Amounts in thousands)	%	For the Twelve Weeks Ended July 18, 2009 $ (Amounts in thousands)	%	% (Decrease)
Branded Retail	$ 289,901	59.2%	$ 291,449	57.4%	(0.5)%

Store Branded Retail	81,335	16.6	89,536	17.6	(9.2)%
Non-retail and Other	118,683	24.2	126,490	25.0	(6.2)%
Total	$ 489,919	100.0%	$ 507,475	100.0%	(3.5)%

The 3.5% decrease in sales was attributable to the following for all sales categories:

Percentage Point Change in Sales Attributed to:	**Favorable (Unfavorable)**
Pricing/Mix	(3.9)%
Volume	1.0%
VIE deconsolidation	(0.6)%
Total Percentage Change in Sales	(3.5)%

Sales category discussion

The decrease in branded retail sales was due primarily to pricing/mix and volume declines in branded white bread and branded specialty loaf, partially offset by volume increases in branded soft variety and sandwich rounds. The decrease in store branded retail sales was due to store brand white bread and store brand soft variety lower sales as a result of both pricing/mix and volume declines. The decrease in non-retail and other sales was due to the deconsolidation of the VIE, pricing/mix declines, and to a lesser extent, volume declines.

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Warehouse Delivery Sales.

Sales Category	For the Twelve Weeks Ended July 17, 2010 $ (Amounts in thousands)	%	For the Twelve Weeks Ended July 18, 2009 $ (Amounts in thousands)	%	% Increase (Decrease)
Branded Retail	$ 24,675	20.9%	$ 31,219	29.2%	(21.0)%
Store Branded Retail	25,435	21.6	13,062	12.2	94.7%
Non-retail and Other	67,687	57.5	62,692	58.6	8.0%
Total	$ 117,797	100.0%	$ 106,973	100.0%	10.1%

The 10.1% increase in sales was attributable to the following for all sales categories:

Percentage Point Change in Sales Attributed to:	Favorable (Unfavorable)
Pricing/Mix	(0.1)%
Volume	4.3%
Acquisition	5.9%
Total Percentage Change in Sales	10.1%

Sales category discussion

The decrease in branded retail sales was primarily the result of lower branded multi-pak cake volume as a result of new store brand cake programs introduced by several of the company s customers, which resulted in the increase in store branded retail sales.The increase in non-retail and other sales, which include contract production and vending, was primarily due to the acquisitions. The acquisitions will be cycled by the end of the third quarter of fiscal 2010.

Materials, Supplies, Labor and Other Production Costs (exclusive of depreciation and amortization shown separately). The decrease as a percent of sales was primarily due to significant decreases in ingredient costs, partially offset by lower sales and higher packaging and workforce-related costs as a percent of sales. In addition, the acquisitions have higher costs as a percent of sales.

The DSD segment decrease as a percent of sales was primarily the result of decreases in ingredient costs. These were partially offset by sales declines and higher workforce-related costs as a percent of sales.

The warehouse delivery segment decrease as a percent of sales was primarily the result of lower ingredient costs, partially offset by higher workforce-related costs as a percent of sales.

Selling, Distribution and Administrative Expenses. The increase as a percent of sales was due to lower sales and higher workforce-related and advertising costs as a percent of sales. These were partially offset by lower distributor discounts and lower costs for the acquisitions as a percent of sales.

The DSD segment s selling, distribution and administrative expenses increased as a percent of sales primarily due to lower sales and higher workforce-related, advertising, and rent expenses as a percent of sales.

The warehouse delivery segment s selling, distribution and administrative expenses decreased as a percent of sales primarily due to lower workforce-related and advertising costs as a percent of sales.

Gain on Acquisition. On May 15, 2009, the company acquired substantially all the assets of a bakery mix operation in Cedar Rapids, Iowa. Based on the purchase price allocation, the fair value of the identifiable assets acquired and liabilities assumed exceeded the fair value of the consideration paid. As a result, we recognized a gain of $3.0 million,

which is included in the line item Gain on acquisition to derive income from operations in the condensed consolidated statement of income for the twelve weeks ended July 18, 2009. The gain on acquisition resulted due to the seller s strategic intent to exit a non-core business operation. This acquisition is recorded in the warehouse delivery segment.

Depreciation and Amortization. Depreciation and amortization increased primarily due to increased depreciation expense related to assets placed in service subsequent to the second quarter of fiscal 2009 and acquisitions.

The DSD segment s depreciation and amortization expense increase was due to assets placed in service subsequent to the second quarter of fiscal 2009. The warehouse delivery segment s depreciation and amortization expense increase was due to the acquisitions.

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Income from Operations. The increase in the DSD segment income from operations was attributable to significantly lower ingredient costs. The decrease in the warehouse delivery segment income from operations was primarily a result of the gain on acquisition recorded in 2009 discussed above, partially offset by margin improvement. The decrease in unallocated corporate expenses was primarily due to lower pension and postretirement plan costs.

Net Interest Income. The increase was related to lower interest expense due to lower debt outstanding under the credit facility and the term loan used for acquisitions during fiscal 2008. The credit facility and term loan had outstanding borrowings of $98.0 million and $138.8 million, respectively, at July 18, 2009 and $25.0 million and $123.8 million, respectively at July 17, 2010.

Income Taxes. The effective tax rate for the second quarter of fiscal 2010 was 35.3% compared to 36.6% in the second quarter of the prior year. The decrease in the rate is due mainly to the increase in the Section 199 qualifying production activities deduction in the current quarter compared to the prior year quarter. The difference in the effective rate and the statutory rate is primarily due to state income taxes, and the Section 199 qualifying production activities deduction.

Net Income Attributable to Noncontrolling Interest. The company maintains a transportation agreement with an entity that transports a significant portion of the company s fresh bakery products from the company s production facilities to outlying distribution centers. The company represents a significant portion of the entity s revenue. This entity qualified as a VIE for reporting periods prior to January 3, 2010 under previous accounting guidance and all the earnings of the VIE were eliminated through noncontrolling interest because the company did not have an equity ownership interest in the VIE. In 2009, the FASB amended the consolidation principles associated with VIE accounting by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in the VIE with a qualitative approach. The qualitative approach is focused on identifying which company has both the power to direct the activities of a VIE that most significantly impact the entity s economic performance and the obligation to absorb losses of the entity or the right to receive benefits from the entity. As a result of this qualitative analysis, the company is no longer required to consolidate the VIE beginning on January 3, 2010 at adoption. Please see Note 8, *Variable Interest Entity*, of this Form 10-Q for additional disclosure.

TWENTY-EIGHT WEEKS ENDED JULY 17, 2010 COMPARED TO TWENTY-EIGHT WEEKS ENDED JULY 18, 2009

Consolidated Sales.

	For the Twenty-Eight Weeks Ended July 17, 2010		For the Twenty-Eight Weeks Ended July 18, 2009		
Sales category	**$ (Amounts in thousands)**	**%**	**$ (Amounts in thousands)**	**%**	**% (Decrease)**
Branded Retail	$ 735,505	52.4%	$ 737,753	51.9%	(0.3)%
Store Branded Retail	228,195	16.3	231,608	16.3	(1.5)%
Non-retail and Other	439,042	31.3	452,094	31.8	(2.9)%
Total	$ 1,402,742	100.0%	$ 1,421,455	100.0%	(1.3)%

The 1.3% decrease in sales was attributable to the following for all sales categories:

Percentage Point Change in Sales Attributed to:	**Favorable (Unfavorable)**
Pricing/Mix	(2.9)%
Volume	0.4%

VIE deconsolidation	(0.3)%
Acquisitions	1.5%
Total Percentage Change in Sales	(1.3)%

Sales category discussion

The decrease in branded retail sales was due primarily to decreases in branded white bread and multi-pak cake which were partially offset by increases in branded soft variety and newly introduced sandwich rounds. Consumer preferences drove the shift to soft variety from white bread. The decrease in store branded retail sales was primarily due to lower store branded sales for white bread and soft variety which were partially offset by increases in store branded cake. The decrease in non-retail and other sales was due primarily to foodservice declines and the impact of the VIE deconsolidation, partially offset by the acquisitions.

Direct-Store-Delivery Sales.

Sales category	For the Twenty-Eight Weeks Ended July 17, 2010 $ (Amounts in thousands)	%	For the Twenty-Eight Weeks Ended July 18, 2009 $ (Amounts in thousands)	%	% Increase (Decrease)
Branded Retail	$ 669,852	59.0%	$ 666,349	56.7%	0.5%
Store Branded Retail	181,003	15.9	199,597	17.0	(9.3)%
Non-retail and Other	285,238	25.1	309,804	26.3	(7.9)%
Total	$ 1,136,093	100.0%	$ 1,175,750	100.0%	(3.4)%

The 3.4% decrease in sales was attributable to the following for all sales categories:

Percentage Point Change in Sales Attributed to:	Favorable (Unfavorable)
Pricing/Mix	(3.0)%
Volume	0.0%
VIE deconsolidation	(0.4)%
Total Percentage Change in Sales	(3.4)%

Sales category discussion

The increase in branded retail sales was due primarily to volume increases in branded soft variety and sandwich rounds partially offset by negative pricing/mix and volume decreases in branded white bread. The volume decrease in white bread was due to a consumer shift to soft variety from white bread. The decrease in store branded retail sales was primarily due to decreases in store branded white and soft variety bread. The decrease in non-retail and other sales was primarily due to the VIE deconsolidation and declines in foodservice channel sales.

Warehouse Delivery Sales.

Sales category	For the Twenty-Eight Weeks Ended July 17, 2010 $ (Amounts in thousands)	%	For the Twenty-Eight Weeks Ended July 18, 2009 $ (Amounts in thousands)	%	% Increase (Decrease)
Branded Retail	$ 65,653	24.6%	$ 71,404	29.1%	(8.1)%
Store Branded Retail	47,192	17.7	32,011	13.0	47.4%
Non-retail and Other	153,804	57.7	142,290	57.9	8.1%
Total	$ 266,649	100.0%	$ 245,705	100.0%	8.5%

The 8.5% increase in sales was attributable to the following for all sales categories:

Percentage Point Change in Sales Attributed to:	**Favorable (Unfavorable)**
Pricing/Mix	(1.8)%
Volume	1.9%
Acquisition	8.4%
Total Percentage Change in Sales	8.5%

Sales category discussion

The decrease in branded retail sales was primarily the result of lower multi-pak cake volume as a result of new store brand cake programs introduced by several of the company s customers, which resulted in the increase in store branded retail sales. The increase in non-retail and other sales, which include contract production and vending, was due primarily to the acquisitions. The acquisitions will be cycled by the end of the third quarter of fiscal 2010.

Materials, Supplies, Labor and Other Production Costs (exclusive of depreciation and amortization shown separately). The decrease as a percent of sales was primarily due to significant decreases in ingredient costs and improved manufacturing efficiencies. These were partially offset by sales declines and higher workforce-related costs as a percent of sales and higher costs as a percent of sales for the acquired companies.

The DSD segment decrease as a percent of sales was primarily a result of significant decreases in ingredient costs. These were

partially offset by sales declines and higher workforce-related costs as a percent of sales.

The warehouse delivery segment increase as a percent of sales was primarily as a result of higher ingredient and workforce-related costs as a percent of sales, partially offset by improved manufacturing efficiencies. The higher ingredient costs are due to the acquisitions.

Selling, Distribution and Administrative Expenses. The increase as a percent of sales was due to lower sales and higher workforce- related and advertising costs as a percent of sales, partially offset by lower costs for the acquired companies.

The DSD segment s selling, distribution and administrative expenses increased as a percent of sales primarily due to lower sales and higher workforce-related, advertising and rent expenses as a percent of sales.

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

Gain on Acquisition. On May 15, 2009, the company acquired substantially all the assets of a bakery mix operation in Cedar Rapids, Iowa. Based on the purchase price allocation, the fair value of the identifiable assets acquired and liabilities assumed exceeded the fair value of the consideration paid. As a result, we recognized a gain of $3.0 million, which is included in the line item Gain on acquisition to derive income from operations in the condensed consolidated statement of income for the twenty-eight weeks ended July 18, 2009. The gain on acquisition resulted due to the seller s strategic intent to exit a non-core business operation. This acquisition is recorded in the warehouse delivery segment.

Depreciation and Amortization. Depreciation and amortization increased primarily due to the acquisitions and, to a lesser extent, assets placed into service after the second quarter of fiscal 2009.

The DSD segment s depreciation and amortization expense increased primarily due to assets placed into service subsequent to the second quarter of fiscal 2009. The warehouse delivery segment s depreciation and amortization expense increased primarily as a result of acquisitions.

Income from Operations. The increase in the DSD segment income from operations was attributable to significantly lower ingredient costs, partially offset by sales declines. The decrease in the warehouse delivery segment income from operations was primarily a result of the gain on acquisition recorded in 2009 discussed above. The decrease in unallocated corporate expenses was primarily due to lower pension and postretirement plan costs.

Net Interest Income. The increase was related to lower interest expense due to lower debt outstanding under the credit facility and term loan used for the acquisitions during fiscal 2008.

Income Taxes. The effective tax rate for the twenty-eight weeks ended July 17, 2010 was 35.5% compared to 36.6% for the twenty-eight weeks ended July 18, 2009. The decrease in the rate is due mainly to the increase in the Section 199 qualifying production activities deduction in the current quarter compared to the prior year quarter. The difference in the effective rate and the statutory rate is primarily due to state income taxes, and the Section 199 qualifying production activities deduction.

Net Income Attributable to Noncontrolling Interest. The company maintains a transportation agreement with an entity that transports a significant portion of the company s fresh bakery products from the company s production facilities to outlying distribution centers. The company represents a significant portion of the entity s revenue. This entity qualified as a VIE for reporting periods prior to January 3, 2010 under previous accounting guidance and all the earnings of the VIE were eliminated through noncontrolling interest because the company did not have an equity ownership interest in the VIE. In 2009, the FASB amended the consolidation principles associated with VIE accounting by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in the VIE with a qualitative approach. The qualitative approach is focused on identifying which company has both the power to direct the activities of a VIE that most significantly impact the entity s economic performance and the obligation to absorb losses of the entity or the right to receive benefits from the entity. As a result of this qualitative analysis, the company is no longer required to consolidate the VIE beginning on January 3, 2010 at adoption. Please see Note 8, *Variable Interest Entity*, of this Form 10-Q for additional disclosure.

LIQUIDITY AND CAPITAL RESOURCES:

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

Cash Flows

Flowers Foods cash and cash equivalents decreased to $6.5 million at July 17, 2010 from $18.9 million at January 2, 2010. The decrease resulted from $155.3 million provided by operating activities, offset by $61.3 million and $106.4 million disbursed for investing activities and financing activities, respectively. Included in cash and cash equivalents at January 2, 2010 was $8.8 million related to the company s VIE which was not available for use by the company. The company deconsolidated the VIE on January 3, 2010 as discussed in Note 8, *Variable Interest Entity,* of this Form 10-Q.

Cash Flows Provided by Operating Activities. Net cash of $155.3 million provided by operating activities during the twenty-eight weeks ended July 17, 2010 consisted primarily of $74.4 million in net income, adjusted for the following non-cash items (amounts in thousands):

Depreciation and amortization	$ 45,658
Non cash effect of derivative activity	19,293
Stock-based compensation	7,482
Deferred income taxes	(1,523)
Provision for inventory obsolescence	589
Allowances for accounts receivable	832
Pension and postretirement plans expense	992
Other	(315)
Total	$ 73,008

Cash provided by working capital and other activities was $7.9 million. As of July 17, 2010, the company had $10.8 million recorded in other current liabilities representing collateral for hedged positions. As of January 2, 2010, the company had $7.0 million recorded in other current assets representing collateral for hedged positions.

Cash Flows Disbursed for Investing Activities. Net cash disbursed for investing activities during the twenty-eight weeks ended July 17, 2010 of $61.3 million consisted primarily of capital expenditures of $54.9 million. Capital expenditures in the DSD segment and the warehouse delivery segment were $37.0 million and $15.3 million, respectively. The company estimates capital expenditures of approximately $95.0 million to $100.0 million during fiscal 2010. The company also leases certain production machinery and equipment through various operating leases.

Cash Flows Disbursed for Financing Activities. Net cash disbursed for financing activities of $106.4 million during the twenty-eight weeks ended July 17, 2010 consisted primarily of dividends paid of $34.3 million, stock repurchases of $2.1 million, and net debt repayments of $74.6 million, partially offset by proceeds of $4.5 million from the exercise of stock options and the related share-based payments income tax benefit of $0.7 million.

Credit Facility and Term Loan

Credit Facility. The company has a five-year, $250.0 million unsecured revolving loan facility (the credit facility) that expires October 5, 2012. Proceeds from the credit facility may be used for working capital and general corporate purposes, including acquisition financing, refinancing of indebtedness and share repurchases. The credit facility includes certain customary restrictions, which, among other things, require maintenance of financial covenants and limit encumbrance of assets and creation of indebtedness. Restrictive financial covenants include such ratios as a

minimum interest coverage ratio and a maximum leverage ratio. The company believes that, given its current cash position, its cash flow from operating activities and its available credit capacity, it can comply with the current terms of the credit facility and can meet presently foreseeable financial requirements. As of July 17, 2010 and January 2,

2010, the company was in compliance with all restrictive financial covenants under its credit facility.

Interest is due quarterly in arrears on any outstanding borrowings at a customary Eurodollar rate or the base rate plus the applicable margin. The underlying rate is defined as the rate offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranges from 0.00% to 0.30% for base rate loans and from 0.40% to 1.275% for Eurodollar loans. In addition, a facility fee ranging from 0.10% to 0.35% is due quarterly on all commitments under the credit facility. Both the interest margin and the facility fee are based on the company s leverage ratio. There were $25.0 million and $89.0 million in outstanding borrowings under the credit facility at July 17, 2010 and January 2, 2010, respectively.

Term Loan. On August 1, 2008, the company entered into a credit agreement (term loan) with various lending parties for the purpose of completing acquisitions. The term loan provides for an amortizing $150.0 million of borrowings through the maturity date of August 4, 2013. Principal payments are due quarterly under the term loan beginning on December 31, 2008 at an annual amortization of 10% of the principal balance for each of the first two years, 15% during the third year, 20% during the fourth year, and 45% during the fifth year. The term loan includes certain customary restrictions, which, among other things, require maintenance of financial covenants and limit encumbrance of assets and creation of indebtedness. Restrictive financial covenants include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. The company believes that, given its current cash position, its cash flow from operating activities and its available credit capacity, it can comply with the current terms of the term loan and can meet presently foreseeable financial requirements. As of July 17, 2010 and January 2, 2010, the company was in compliance with all restrictive financial covenants under the term loan. As of July 17, 2010 and January 2, 2010, the amounts outstanding under the term loan were $123.8 million and $131.3 million, respectively.

Interest is due quarterly in arrears on outstanding borrowings at a customary Eurodollar rate or the base rate plus the applicable margin. The underlying rate is defined as the rate offered in the interbank Eurodollar market or the higher of the prime lending rate or federal funds rate plus 0.5%. The applicable margin ranges from 0.0% to 1.375% for base rate loans and from 0.875% to 2.375% for Eurodollar loans and is based on the company s leverage ratio. The company paid financing costs of $0.8 million in connection with the term loan, which is being amortized over the life of the term loan.

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

Uses of Cash

On February 16, 2010, the Board of Directors declared a dividend of $0.175 per share on the company s common stock that was paid on March 16, 2010 to shareholders of record on March 2, 2010. This dividend payment was $16.0 million. On June 4, 2010, the Board of Directors declared a dividend of $0.20 per share on the company s common stock that was paid on July 2, 2010 to shareholders of record on June 18, 2010. This dividend payment was $18.3 million.

Our Board of Directors has approved a plan that authorizes share repurchases of up to 30.0 million shares of the company s common stock. Under the plan, the company may repurchase its common stock in open market or privately negotiated transactions at such times and at such prices as determined to be in the company s best interest. These purchases may be commenced or suspended without prior notice depending on then-existing business or market conditions and other factors. During the first quarter of fiscal 2010, 87,271 shares, at a cost of $2.1 million of the company s common stock were purchased under the plan. No repurchases were made by the company during the second quarter of fiscal 2010. From the inception of the plan through July 17, 2010, 22.7 million shares, at a cost of $367.1 million, have been purchased.

During the first quarter of fiscal 2010, the company paid $16.2 million in performance-based cash awards under the company s bonus plan.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

COMMODITY PRICE RISK

The company enters into commodity forward, futures and option contracts and swap agreements for wheat and, to a lesser extent, other commodities in an effort to provide a predictable and consistent commodity price and thereby reduce the impact of market volatility in its raw material and packaging prices. As of July 17, 2010, the company s hedge portfolio contained commodity derivatives with a net fair value of $12.0 million. Of this net fair value, $14.5 million is based on quoted market prices and $(2.5) million is based on models and other valuation methods. Approximately $7.4 million, $4.7 million and $(0.1) million of this net fair value relates to instruments that will be utilized in fiscal 2010, 2011 and 2012, respectively.

A sensitivity analysis has been prepared to quantify the company s potential exposure to commodity price risk with respect to the derivative portfolio. Based on the company s derivative portfolio as of July 17, 2010, a hypothetical ten percent increase (decrease) in commodity prices would increase (decrease) the net fair value of the derivative portfolio by $10.6 million. The analysis disregards changes in the exposures inherent in the underlying hedged items; however, the company expects that any increase (decrease) in the net fair value of the portfolio would be substantially offset by increases (decreases) in raw material and packaging prices.

INTEREST RATE RISK

The company has interest rate swaps with notional amounts of $85.0 million, and $65.0 million, respectively, to fix the interest rate on the $150.0 million term loan entered into on August 1, 2008 to fund the acquisitions of ButterKrust and Holsum. On October 27, 2008, the company entered an interest rate swap with a notional amount of $50.0 million to fix the interest rate through September 30, 2009 on $50.0 million of borrowings outstanding under the company s unsecured credit facility. As of July 17, 2010, the net fair value of these interest rate swaps was $(7.9) million. All of this net fair value is based on valuation models and $(1.9) million, $(3.5) million, $(2.1) million and $(0.4) million of this net fair value is related to instruments expiring in 2010 through 2013, respectively.

A sensitivity analysis has been prepared to quantify the company s potential exposure to interest rate risk with respect to the interest rate swaps. As of July 17, 2010, a hypothetical ten percent increase (decrease) in interest rates would increase (decrease) the net fair value of the interest rate swap by $0.3 million. The analysis disregards changes in the exposures inherent in the underlying debt; however, the company expects that any increase (decrease) in payments under the interest rate swap would be substantially offset by

increases (decreases) in interest expense.

ITEM 4. CONTROLS AND PROCEDURES

Management s Evaluation of Disclosure Controls and Procedures

We have established and maintain a system of disclosure controls and procedures that is designed to ensure that material information relating to the company, which is required to be timely disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), is accumulated and communicated to management in a timely fashion and is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) was performed as of the end of the period covered by this quarterly report. This evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Accounting Officer (CAO). Based upon that evaluation, our CEO, CFO and CAO have concluded that these disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended July 17, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On July 23, 2008, a wholly-owned subsidiary of the company filed a lawsuit against Hostess in the United States District Court for the Northern District of Georgia. The complaint alleges that Hostess is infringing upon Flowers *Nature s Own* trademarks by using or intending to use the *Nature s Pride* trademark. Flowers asserts that Hostess sale or intended sale of baked goods under the *Nature s Pride* trademark is likely to cause confusion with, and likely to dilute the distinctiveness of, the *Nature s Own* mark and constitutes unfair competition and deceptive trade practices. Flowers is seeking actual damages, an accounting of Hostess profits from its sales of *Nature s Pride* products, and injunctive relief.

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

ITEM 1A. RISK FACTORS

Please refer to Part I, Item 1A., *Risk Factors*, in the company s Form 10-K for the year ended January 2, 2010 for information regarding factors that could affect the company s results of operations, financial condition and liquidity. There have been no changes to our risk factors during the first and second quarters of fiscal 2010.

ITEM 6. EXHIBITS

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

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SIGNATURES

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

FLOWERS FOODS, INC.

By: /s/ GEORGE E. DEESE
Name: George E. Deese
Title: *Chairman of the Board and Chief Executive Officer*

By: /s/ R. STEVE KINSEY
Name: R. Steve Kinsey
Title: *Executive Vice President and Chief Financial Officer*

By: /s/ KARYL H. LAUDER
Name: Karyl H. Lauder
Title: *Senior Vice President and Chief Accounting Officer*

Date: August 24, 2010

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EXHIBIT INDEX

Exhibit No	Name of Exhibit
2.1	Distribution Agreement by and between Flowers Industries, Inc. and Flowers Foods, Inc., dated as of October 26, 2000 (Incorporated by reference to Flowers Foods Registration Statement on Form 10, dated December 1, 2000, File No. 1-16247).
2.2	Amendment No. 1 to Distribution Agreement, dated as of March 12, 2001, between Flowers Industries, Inc. and Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).
3.1	Restated Articles of Incorporation of Flowers Foods, Inc. as amended May 30, 2008 (Incorporated by reference to Flowers Foods Quarterly Report on Form 10-Q dated June 4, 2009, File No. 1-16247).
3.2	Amended and Restated Bylaws of Flowers Foods, Inc. as amended and restated on November 14, 2008 (Incorporated by reference to Flowers Foods Current Report on Form 8-K dated November 18, 2008, File No. 1-16247).
4.1	Share Certificate of Common Stock of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).
4.2	Rights Agreement between Flowers Foods, Inc. and First Union National Bank, as Rights Agent, dated March 23, 2001 (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).
4.3	Amendment No. 1, dated November 15, 2002, to Rights Agreement between Flowers Foods, Inc. and Wachovia Bank, N.A. (as successor in interest to First Union National Bank), as rights agent, dated March 23, 2001. (Incorporated by reference to Flowers Foods Registration Statement on Form 8-A, dated November 18, 2002, File No. 1-16247).
10.1	Flowers Foods, Inc. Retirement Plan No. 1 as amended and restated effective March 26, 2001 (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).
10.2	Flowers Foods, Inc. 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009 (Incorporated by reference to Flowers Foods Proxy Statement on Schedule 14A, dated April 24, 2009, File No. 1-16247).
10.3	Flowers Foods, Inc. Stock Appreciation Rights Plan. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 29, 2002, File No. 1-16247).
10.4	Flowers Foods, Inc. Annual Executive Bonus Plan. (Incorporated by reference to Flowers Foods Proxy Statement on Schedule 14A, dated April 24, 2009, File No. 1-16247).
10.5	Flowers Foods, Inc. Supplemental Executive Retirement Plan. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 29, 2002, File No. 1-16247).

10.6	Form of Indemnification Agreement, by and between Flowers Foods, Inc., certain executive officers and the directors of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K, dated March 28, 2003, File No. 1-16247).
10.7	Form of Continuation of Employment Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 4, 2009, File No. 1016247)
10.8	Ninth Amendment dated November 7, 2005 to the Flowers Foods, Inc. Retirement Plan No. 1 as Amended and restated effective as of March 26, 2001. (Incorporated by reference to Flowers Foods Quarterly Report on Form 10-Q dated November 17, 2005, File No. 1-16247).

Exhibit No	Name of Exhibit
10.9	Form of Nonqualified Stock Option Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 1, 2006, File No. 1-16247).
10.10	Form of 2008 Nonqualified Stock Option Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated February 27, 2008, File No. 1-16247).
10.11	First Amendment and Waiver, dated October 5, 2007, among Flowers Foods, Inc., a Georgia corporation, the lenders party to the Credit Agreement and Deutsche Bank AG New York Branch, as Administrative Agent. (Incorporated by reference to Flowers Foods Current Report on Form 8-K dated October 11, 2007, File No. 1-16247).
10.12	Agreement and Plan of Merger, dated June 23, 2008, by and among, Flowers Foods, Inc., Peachtree Acquisition Co., LLC, Holsum Bakery, Inc., Lloyd Edward Eisele, Jr. and The Lloyd Edward Eisele, Jr. Revocable Trust (Incorporated by reference to Flowers Foods Current Report on Form 8-K/A dated June 25, 2008, File No. 1-16247).
10.13	Credit Agreement, dated as of August 1, 2008, among Flowers Foods, Inc., the Lenders Party thereto from time to time, Bank of America N.A., Cooperative Centrale Raiffeisen-Boerenleen Bank, B.A., Rabobank International , New York Branch, and Branch Banking & Trust Company as co-documentation agents, SunTrust Bank, as syndication agent, and Deutsche Bank AG, New York Branch, as administrative agent (Incorporated by reference to Flowers Foods Current Report on Form 8-K dated August 6, 2008, File No. 1-16247).
10.14	Form of 2009 Restricted Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 4, 2009, File No. 1-16247).
10.15	Form of 2009 Nonqualified Stock Option Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 4, 2009, File No. 1-16247).
10.16	Form of 2009 Deferred Shares Agreement, by and between Flowers Foods, Inc. and certain members of the Board of Directors of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 4, 2009, File No. 1-16247).
10.17	Form of 2010 Restricted Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 3, 2010, File No. 1-16247).
10.18	Form of 2010 Nonqualified Stock Option Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 3, 2010, File No. 1-16247).

	Subsidiaries of Flowers Foods, Inc. (Incorporated by reference to Flowers Foods Annual Report on Form 10-K dated March 3, 2010, File No. 1-16247).
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.3	Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by George E. Deese, Chief Executive Officer, R. Steve Kinsey, Chief Financial Officer and Karyl H. Lauder, Chief Accounting Officer for the Quarter Ended July 17, 2010.
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase.

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Exhibit No	Name of Exhibit
*101.DEF	XBRL Taxonomy Extension Definition Linkbase.
*101.INS	XBRL Instance Document.
*101.LAB	XBRL Taxonomy Extension Label Linkbase.
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
*101.SCH	XBRL Taxonomy Extension Schema Linkbase.

* Filed herewith