FLOWERS FOODS INC
Form 10-Q
May 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 21, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-16247

FLOWERS FOODS, INC.

(Exact name of registrant as specified in its charter)

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

1919 FLOWERS CIRCLE, THOMASVILLE, GEORGIA

(Address of principal executive offices)

31757

(Zip Code)

(229)-226-9110

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

TITLE OF EACH CLASS	OUTSTANDING AT MAY 11, 2018
Common Stock, $.01 par value	210,813,687

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 Flowers Foods, Inc. (the "company", "Flowers Foods", "Flowers", "us", "we", or "our") and its representatives that are not historical fa 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," "int "may," "plan," "predict," "project," "should," "will," "would," "is likely to," "is expected to" or "will continue," or the negativ terms or other comparable terminology. These forward-looking statements are based upon assumptions we believe are reasonable.

Forward-looking statements are based on current information and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected. Certain factors that may cause actual results, performance, liquidity, and achievements to differ materially from those projected are discussed in this Quarterly Report on Form 10-Q (this "Form 10-Q") and may include, but are not limited to:

- unexpected changes in any of the following: (i) general economic and business conditions; (ii) the competitive setting in which we operate, including advertising or promotional strategies by us or our competitors, as well as changes in consumer demand; (iii) interest rates and other terms available to us on our borrowings; (iv) energy and raw materials costs and availability and hedging counter-party risks; (v) relationships with or increased costs related to our employees and third-party service providers; and (vi) laws and regulations (including environmental and health-related issues), accounting standards or tax rates in the markets in which we operate;
- the loss or financial instability of any significant customer(s);
- changes in consumer behavior, trends and preferences, including health and whole grain trends, and the movement toward more inexpensive store-branded products;
- the level of success we achieve in developing and introducing new products and entering new markets;
- our ability to implement new technology and customer requirements as required;
- our ability to operate existing, and any new, manufacturing lines according to schedule;
- our ability to execute our business strategies, including those strategies we have initiated under Project Centennial, which may involve, among other things, (i) the integration of acquisitions or the acquisition or disposition of assets at presently targeted values, (ii) the deployment of new systems and technology, and (iii) an enhanced organizational structure;
- consolidation within the baking industry and related industries;
- changes in pricing, customer and consumer reaction to pricing actions, and the pricing environment among competitors within the industry;
- disruptions in our direct-store-delivery distribution model, including litigation or an adverse ruling by a court or regulatory or governmental body that could affect the independent contractor classifications of the independent distributors;
- increasing legal complexity and legal proceedings that we are or may become subject to;
- increases in employee and employee-related costs, including funding of pension plans;
- the credit, business, and legal risks associated with independent distributors and customers, which operate in the highly competitive retail food and foodservice industries;
- any business disruptions due to political instability, armed hostilities, incidents of terrorism, natural disasters, labor strikes or work stoppages, technological breakdowns, product contamination, product recalls or safety concerns related to our products, or the responses to or repercussions from any of these or similar events or conditions and our ability to insure against such events;
- the failure of our information technology systems to perform adequately, including any interruptions, intrusions or security breaches of such systems; and
- regulation and legislation related to climate change that could affect our ability to procure our commodity needs or that necessitate additional unplanned capital expenditures.

The foregoing list of important factors does not include all such factors, nor necessarily present them in order of importance. In addition, you should consult other disclosures made by the company (such as in our other filings with the Securities and Exchange Commission ("SEC") or in company press releases) for other factors that may cause actual results to differ materially from those projected by the company. Refer to Part I, Item 1A., Risk Factors, of our Annual Report on Form 10-K for the year ended December 30, 2017 (the "Form 10-K") for additional information regarding factors that could affect the company's results of operations, financial condition and liquidity.

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

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

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	April 21, 2018	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$34,216	$5,129
Accounts and notes receivable, net of allowances of $3,669 and $3,154, respectively	292,840	280,050
Inventories, net:		
Raw materials	43,181	41,710
Packaging materials	21,200	19,638
Finished goods	46,916	49,697
Inventories, net	111,297	111,045
Spare parts and supplies	62,298	61,330
Other	32,569	49,637
Total current assets	533,220	507,191
Property, plant and equipment, net:		
Property, plant and equipment, gross	1,929,108	1,906,979
Less: accumulated depreciation	(1,207,465)	(1,174,953)
Property, plant and equipment, net	721,643	732,026
Notes receivable from independent distributor partners	199,876	187,737
Assets held for sale	8,184	15,323
Other assets	8,082	10,228
Goodwill	464,777	464,777
Other intangible assets, net	734,475	742,442
Total assets	$2,670,257	$2,659,724
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$11,806	$12,095
Accounts payable	209,639	181,388
Other accrued liabilities	152,359	200,468
Total current liabilities	373,804	393,951
Long-term debt:		
Total long-term debt and capital lease obligations	818,141	820,141
Other liabilities:		

Postretirement/post-employment obligations	36,206	60,107
Deferred taxes	96,259	82,976
Other long-term liabilities	54,316	51,872
Total other long-term liabilities	186,781	194,955
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock — $100 stated par value, 200,000 authorized shares and none issued	—	—
Preferred stock — $.01 stated par value, 800,000 authorized shares and none issued	—	—
Common stock — $.01 stated par value and $.001 current par value, 500,000,000 authorized shares and 228,729,585 shares and 228,729,585 shares issued, respectively	199	199
Treasury stock — 17,915,898 shares and 18,203,381 shares, respectively	(232,707)	(235,493)
Capital in excess of par value	649,763	650,872
Retained earnings	953,469	919,658
Accumulated other comprehensive loss	(79,193)	(84,559)
Total stockholders' equity	1,291,531	1,250,677
Total liabilities and stockholders' equity	$2,670,257	$2,659,724

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

(Unaudited)

	For the Sixteen Weeks Ended April 21, 2018	April 22, 2017
Sales	$ 1,206,453	$ 1,187,649
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)	625,122	608,068
Selling, distribution and administrative expenses	454,463	463,066
Depreciation and amortization	44,189	47,188
Impairment of assets	2,483	—
Multi-employer pension plan withdrawal costs	2,322	—
Restructuring charges	1,259	—
Gain on divestiture	—	(28,875)
Income from operations	76,615	98,202
Interest expense	10,996	11,625
Interest income	(8,095)	(6,577)
Pension plan settlement loss	4,668	—
Other components of net periodic pension and postretirement benefits credit	(735)	(1,923)
Income before income taxes	69,781	95,077
Income tax expense	18,534	34,659
Net income	$ 51,247	$ 60,418
Net income per common share:		
Basic:		

Net income per common share	$	0.24	$	0.29
Weighted average shares outstanding		210,888		209,123
Diluted:				
Net income per common share	$	0.24	$	0.29
Weighted average shares outstanding		211,311		210,275
Cash dividends paid per common share	$	0.1700	$	0.1600

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	For the Sixteen Weeks Ended	
	April 21, 2018	April 22, 2017
Net income	$51,247	$60,418
Other comprehensive income, net of tax:		
Pension and postretirement plans:		
Settlement loss	3,490	—
Net gain for the period	8,813	—
Amortization of prior service cost included in net income	26	33
Amortization of actuarial loss included in net income	1,076	1,110
Pension and postretirement plans, net of tax	13,405	1,143
Derivative instruments:		
Net change in fair value of derivatives	10,470	(3,518)
Loss reclassified to net income	297	474
Derivative instruments, net of tax	10,767	(3,044)
Other comprehensive income (loss), net of tax	24,172	(1,901)
Comprehensive income	$75,419	$58,517

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in thousands, except share data)

(Unaudited)

	Common Stock Number of Shares Issued	Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Number of Shares	Cost	Total
Balances at December 30, 2017	228,729,585	$199	$650,872	$919,658	$(84,559)	(18,203,381)	$(235,493)	$1,250,677
Net income				51,247				51,247
Derivative instruments, net of tax					10,767			10,767
Pension and postretirement plans, net of tax					13,405			13,405
Exercise of stock options			(151)			72,785	942	791
Amortization of share-based compensation awards			3,375					3,375
Issuance of deferred compensation			(37)			2,864	37	—
Performance-contingent restricted stock awards issued (Note 17)			(4,062)			313,906	4,062	—
Issuance of deferred stock awards			(234)			18,075	234	—
Stock repurchases						(120,147)	(2,489)	(2,489)
Dividends paid on vested share-based payment awards				(405)				(405)
Dividends paid — $.1700 per common share				(35,837)				(35,837)

Reclassification of stranded income tax effects to retained earnings (Note 1)				18,806	(18,806)			
Balances at April 21, 2018	228,729,585	$199	$649,763	$953,469	$(79,193)	(17,915,898)	$(232,707)	$1,291,531

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	For the Sixteen Weeks Ended	
	April 21, 2018	April 22, 2017
CASH FLOWS PROVIDED BY (DISBURSED FOR) OPERATING ACTIVITIES:		
Net income	$51,247	$60,418
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	3,375	5,975
Impairment of assets	2,483	—
Gain on divestiture	—	(28,875)
Loss reclassified from accumulated other comprehensive income to net income	353	727
Depreciation and amortization	44,189	47,188
Deferred income taxes	5,132	2,045
Provision for inventory obsolescence	2,073	1,939
Allowances for accounts receivable	976	695
Pension and postretirement plans cost (income)	4,309	(1,612)
Other	(706)	(1,862)
Qualified pension plan contributions	(10,000)	—
Changes in operating assets and liabilities, net of acquisitions and disposals:		
Accounts receivable, net	(12,072)	(14,534)
Inventories, net	(2,325)	(1,401)
Hedging activities, net	16,001	(9,057)
Other assets	3,945	1,707
Accounts payable	28,540	14,998
Other accrued liabilities	(40,408)	3,570
NET CASH PROVIDED BY OPERATING ACTIVITIES	97,112	81,921
CASH FLOWS PROVIDED BY (DISBURSED FOR) INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(26,550)	(17,465)
Proceeds from sale of property, plant and equipment	499	329
Repurchase of independent distributor territories	(1,135)	(3,032)
Cash paid at issuance of notes receivable	(8,642)	(6,641)
Principal payments from notes receivable	8,171	7,370
Proceeds from sale of mix plant	—	41,230
Other investing activities	228	641
NET CASH (DISBURSED FOR) PROVIDED BY INVESTING ACTIVITIES	(27,429)	22,432
CASH FLOWS PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES:		
Dividends paid, including dividends on share-based payment awards	(36,243)	(33,885)
Exercise of stock options	791	6,249
Stock repurchases, including accelerated stock repurchases	(2,489)	(2,151)

Change in bank overdrafts	(1,405)	(10,513)
Proceeds from debt borrowings	1,000	304,100
Debt and capital lease obligation payments	(2,250)	(368,050)
NET CASH DISBURSED FOR FINANCING ACTIVITIES	(40,596)	(104,250)
Net increase in cash and cash equivalents	29,087	103
Cash and cash equivalents at beginning of period	5,129	6,410
Cash and cash equivalents at end of period	$34,216	$6,513

(See Accompanying Notes to Condensed Consolidated Financial Statements)

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", "Flowers Foods", "Flowers", "us", "we", or "our") have been prepared by t 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 (the "Exchange Act"). Accordingly, they do not include all the information and footnotes required by GAAP for audited financial statements. In the opinion of management, the unaudited Condensed Consolidated Financial Statements included herein contain all adjustments (consisting of only normal recurring adjustments) necessary to state fairly the company's financial position, results of operations and cash flows. The results of operations for the sixteen weeks ended April 21, 2018 and April 22, 2017 are not necessarily indicative of the results to be expected for a full fiscal year. The Condensed Consolidated Balance Sheet at December 30, 2017 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Form 10-K.

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 and estimates used in the preparation of its consolidated financial statements: revenue recognition, derivative instruments, valuation of long-lived assets, goodwill and other intangible assets, self-insurance reserves, income tax expense and accruals, pension obligations, stock-based compensation, and commitments and contingencies. These estimates are summarized in the Form 10-K.

REPORTING PERIODS — The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2018 consists of 52 weeks, with the company's quarterly reporting periods as follows: first quarter ended April 21, 2018 (sixteen weeks), second quarter ending July 14, 2018 (twelve weeks), third quarter ending October 6, 2018 (twelve weeks) and fourth quarter ending December 29, 2018 (twelve weeks).

SEGMENTS — Flowers Foods currently operates two business segments: a direct-store-delivery ("DSD") segment ("DSD Segment") and a warehouse delivery segment ("Warehouse Segment"). The DSD Segment (84% of total year to date sales) currently operates 39 plants that produce a wide variety of fresh bakery foods, including fresh breads, buns, rolls, tortillas, and snack cakes. These products are sold through a DSD route delivery system to retail and foodservice customers in the East, South, Southwest, California, and select markets in the Midwest, Pacific Northwest, Nevada, and Colorado. The Warehouse Segment (16% of total year to date sales) currently operates eight plants that produce snack cakes, breads and rolls for national retail, foodservice, vending, and co-pack customers and deliver through customers' warehouse channels.

On May 3, 2017, the company announced an enhanced organizational structure designed to provide greater focus on the company's strategic objectives, emphasize brand growth and innovation in line with a national branded food company, drive enhanced accountability, reduce costs, and strengthen long-term strategy. The new organizational structure establishes two business units ("BUs"), Fresh Packaged Bread and Snacking/Specialty, and realigns key leadership roles. The new structure also provides for centralized marketing, sales, supply chain, shared-services/administrative, and corporate strategy functions, each with clearly defined roles and responsibilities. The company intends to transition to the new structure over the next several months with full implementation expected to be completed at the beginning of fiscal 2019. Management will continue to review financial information for the DSD Segment and Warehouse Segment until the new organizational structure is fully implemented.

SIGNIFICANT CUSTOMER — Following is the effect that our largest customer, Walmart/Sam's Club, had on the company's sales for the sixteen weeks ended April 21, 2018 and April 22, 2017. Walmart/Sam's Club is the only customer to account for greater than 10% of the company's sales.

	For the Sixteen Weeks Ended	
	April 21, 2018	April 22, 2017
	(% of Sales)	
DSD Segment	17.6	17.3
Warehouse Segment	2.4	2.5
Total	20.0	19.8

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Walmart/Sam's Club is our only customer with a balance greater than 10% of outstanding trade receivables. Its percentage of trade receivables was 19.2% and 23.6%, on a consolidated basis, as of April 21, 2018 and December 30, 2017, respectively. No other customer accounted for greater than 10% of the company's outstanding trade receivables.

SIGNIFICANT ACCOUNTING POLICIES — Significant changes to our critical accounting policies for the quarter ended April 21, 2018 from those disclosed in the Form 10-K are presented below. The policy changes for revenue, derivative financial instruments, and taxes are a result of adopting new guidance issued by the Financial Accounting Standards Board (the "FASB") during the first quarter of our fiscal 2018. See Note 3, Recent Accounting Pronouncements, of Notes to Condensed Consolidated Financial Statements of this Form 10-Q for details on the new guidance.

Revenue. Revenue is recognized when obligations under the terms of a contract with our customers are satisfied. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The company records both direct and estimated reductions to gross revenue for customer programs and incentive offerings at the time the incentive is offered or at the time of revenue recognition for the underlying transaction that results in progress by the customer towards earning the incentive. These allowances include price promotion discounts, coupons, customer rebates, cooperative advertising, and product returns. Consideration payable to a customer is recognized at the time control transfers and is a reduction to revenue. Price promotion discount expense is recorded as a reduction to gross sales when the discounted product is sold to the customer.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in our selling, distribution, and administration expense line item on the Condensed Consolidated Statements of Operations.

The company's production facilities deliver products to independent distributor partners ("IDP" or "IDPs"), who sell and deliver those products to outlets of retail accounts that are within the IDPs' defined geographic territory. The IDPs sell products using either scan-based trading ("SBT") technology, authorized charge tickets, or cash sales.

SBT technology allows the retailer to take ownership of our goods when the consumer purchases the goods rather than at the time they are delivered to the retailer. Control of the inventory does not transfer upon delivery to the retailer because the company controls the risks and rights until the product is scanned at the reseller's register. Each of the company's products are a distinct good since the resellers expect each item to be a performance obligation. The company's performance obligations are satisfied at the point in time when the end consumer purchases the product because each product is considered a separate performance obligation. Consequently, revenue is recognized at a point in time for each scanned item. The company has concluded that we are the principal.

SBT is utilized primarily in certain national and regional retail accounts ("SBT Outlet"). Generally, revenue is not recognized by the company upon delivery of our products by the company to the IDP or upon delivery of our products by the IDP to a SBT Outlet, but when our products are purchased by the end consumer. Product inventory in the SBT Outlet is reflected as inventory on the Condensed Consolidated Balance Sheets.

The IDP performs a physical inventory of products at each SBT Outlet weekly and reports the results to the company. The inventory data submitted by the IDP for each SBT Outlet is compared with the product delivery data. Product delivered to a SBT Outlet that is not recorded in the product delivery data has been purchased by the consumer/customer of the SBT Outlet and is recorded as sales revenue by the company.

Non-SBT sales are classified as either authorized charged sales or cash sales. The company provides marketing support to the IDP for authorized charged sales, but does not provide marketing support to the IDP for cash sales. Marketing support includes providing a dedicated account representative, resolving complaints, and accepting responsibility for product quality which collectively define how to manage the relationship. Revenue is recognized at a point in time for non-SBT sales.

The company retains inventory risk, establishes negotiated special pricing, and fulfills the contractual obligations for authorized charged sales. The company is the principal, the IDP is the agent, and the reseller is the customer. Revenue is recognized for authorized charge sales when the product is delivered to the customer because the company has satisfied its performance obligations.

Cash sales occur when the IDP is the end customer. The IDP maintains accounts receivable, inventory and fulfillment risk for cash sales. The IDP also controls pricing for the resale of cash sale products. The company is the principal and the IDP is the customer, and an agent relationship does not exist. The discount paid to the IDP for cash sales is recorded as a reduction to revenue. Cash sales are recognized when the company’s products are delivered to the IDP because the company has satisfied its performance obligations.

Sales in the Warehouse Segment are under contracts and include a formal ordering system. Orders are placed primarily using purchase orders (“PO”) or electronic data interchange (“EDI”) information. Each PO, together with the applicable master supply agreement, is determined to be a separate contract. Product is delivered via contract carriers engaged by either the company or the customer with shipping terms provided on the PO.

Each unit sold, for all product categories, is a separate performance obligation. Each unit is considered distinct because the customer can benefit from each unit by selling each one to the end consumer. Additionally, each unit is separately identifiable in the PO. Products are delivered either freight-on-board (“FOB”) shipping or destination. The company’s right to payment is at the time our products are obtained from our warehouse for FOB shipping deliveries. The right to payment for FOB destination deliveries occurs after the products are delivered to the customer. Revenue is recognized at a point in time when control transfers. The company pays commissions to brokers who obtain contracts with customers. Commissions are paid on the total value of the contract, which is determined at contract inception and is based on expected future activity. Broker commissions will not extend beyond a one-year term because each product is considered a separate order in the PO.

The company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the company otherwise would have recognized is one year or less. These costs are included in selling, distribution, and administrative expense line item on the Condensed Consolidated Statements of Operations.

The company disaggregates revenue by sales channel for each reportable segment. Our sales channels are branded retail, store branded retail, and non-retail and other. The non-retail and other channel includes foodservice, restaurants, and contract manufacturing. The company does not disaggregate revenue by geographic region, customer type, or contract type. All revenues are recognized at a point in time. The disclosures for segment revenues by sales channel are in Note 20, Segment Reporting, of Notes to Condensed Consolidated Financial Statements of this Form 10-Q.

Derivative Financial Instruments. New guidance updates the disclosure requirements for derivatives and hedging activities with the intent to provide investors with an enhanced understanding of: (a) how and why an entity uses derivative instruments and related hedged items, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the company’s objectives and strategies for using derivative instruments, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required, the company records all derivatives on the Condensed Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedged item with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the company elects not to apply hedge accounting.

Income taxes. The company releases the income tax effect from accumulated other comprehensive income (loss) (“AOCI”) in the period when the underlying transaction impacts earnings. We adopted new accounting requirements that provide the option to reclassify stranded income tax effects resulting from the Tax Cuts and Jobs Act (the “Act”) from AOCI to retained earnings. We elected to reclassify the stranded income tax effects of the Act of $18.8 million from AOCI to retained earnings. This reclassification consists of deferred taxes originally recorded in AOCI that exceed the newly enacted federal corporate tax rate.

2. FINANCIAL STATEMENT REVISIONS

The company identified an error in reporting the cash flow impacts of certain repurchases and sales of territories. Cash receipts and payments for the repurchase and sale of territories and cash paid at the issuance of notes receivable were previously reported net when these transactions should have been disaggregated. The company has evaluated the impact of this error and determined it is not material to previously issued annual and interim financial statements. These corrections did not impact our previously reported Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Comprehensive Income (Loss), and Condensed Consolidated Statements of Changes in Stockholders’ Equity.

The table below presents the revisions to the applicable Condensed Consolidated Statements of Cash Flows line item to correct the errors for the sixteen weeks ended April 22, 2017 (amounts in thousands):

	Condensed Consolidated Statements of Cash Flows Sixteen Weeks Ended April 22, 2017		
Impacted Condensed Consolidated Statements of Cash Flows Line Item	As Previously Reported	Revisions	As Revised
Other assets	$(4,702)	$ 6,409	$ 1,707
Other accrued liabilities	$4,052	$ (482)	$ 3,570
Net cash provided by operating activities	$75,994	$ 5,927	$ 81,921
Repurchase of independent distributor territories	$(3,161)	$ 129	$ (3,032)
Cash paid at issuance of notes receivable	$—	$ (6,641)	$ (6,641)
Other investing activities	$56	$ 585	$ 641
Net cash provided by investing activities	$28,359	$ (5,927)	$ 22,432

3. RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance for recognizing revenue in contracts with customers. This guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There are five steps outlined in the guidance to achieve this core principle. This guidance was adopted on December 31, 2017, the first day of our fiscal 2018. The company applied the guidance at adoption on the modified retrospective transition method. This guidance was applied to all contracts not completed at the adoption date. The adoption of this guidance did not impact our financial statements; however, updated disclosures are included in Note 1, Basis of Presentation, of Notes to Condensed Consolidated Financial Statements of this Form 10-Q. Changes were made to our internal control over financial reporting processes to ensure all contracts are reviewed for each of the five revenue recognition steps. Additionally, the company's revenue disclosures changed beginning in fiscal 2018. The new disclosures require more granularity into our sources of revenue, as well as the assumptions about recognition timing, and include our selection of certain practical expedients and policy elections.

In August 2016, the FASB issued guidance on the classification of certain cash receipts and payments in the statements of cash flows. This guidance was adopted on December 31, 2017, the first day of our fiscal 2018, and it did not impact the prior or current period presentation.

In January 2017, the FASB issued guidance to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance was adopted on December 31, 2017, the first day of our fiscal 2018. This guidance will impact the company's assessment of a future acquisition of either an asset or a business in future transactions beginning in our fiscal 2018.

In March 2017, the FASB issued guidance that requires all employers to separately present the service cost component from the other pension and postretirement benefit cost components in the income statements. Service cost will now be presented with other employee compensation costs in operating income or capitalized in assets, as appropriate. The other components reported in the income statements will be reported separate from the service cost and outside of income from operations. This guidance was adopted on December 31, 2017, the first day of our fiscal 2018. The guidance is required to be applied on a retrospective basis for the presentation of the service cost component and the other components of net benefit cost, and on a prospective basis for the capitalization of only the service cost component of net benefit cost. The company has elected to use the practical expedient option and presented the amounts disclosed in our prior pension and postretirement footnote for the comparative prior period for the retrospective presentation requirement. The company did not capitalize pension cost. The impact (including defined benefit and postretirement plans) for the sixteen weeks ended April 22, 2017 is presented in the table below (amounts in thousands):

	For the Sixteen Weeks Ended	
	Previously Filed April 22, 2017	Post-adoption April 22, 2017
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately)	$607,941	$ 608,068
Selling, distribution and administrative expenses	$461,270	$ 463,066
Income from operations	$100,125	$ 98,202
Other components of net periodic pension and postretirement benefits credit	$—	$ (1,923)

In May 2017, the FASB issued guidance to provide clarity and reduce diversity in practice for changes to the terms and conditions of a share-based payment award. This guidance clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This guidance was adopted on December 31, 2017, the first day of our fiscal 2018. This guidance will impact any modified share-based payment awards beginning in our fiscal 2018.

In August 2017, the FASB amended the guidance for hedge accounting. This guidance makes more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes the requirements for companies to separately measure ineffectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. We elected to early adopt this guidance as of December 31, 2017, the first day of our fiscal 2018. All transition requirements and elections were applied to hedging relationships existing on the date of adoption. The amended presentation and disclosure requirements must be applied prospectively. The guidance requires a modified retrospective transition method in which companies recognize the cumulative effect of the change on the opening balance of each affected component of equity on the balance sheet as of the date of adoption. There was no cumulative effect change to the company at adoption of this amended guidance.

In February 2018, the FASB issued guidance to allow a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Act. We elected to early adopt this guidance as of December 31, 2017, the first day of our fiscal 2018. The table below presents the impact of this reclassification on December 31, 2017 (amounts in thousands) (positive value denotes a debit balance):

	Impacted Line Item (Dr (Cr))	
	Retained Earnings	AOCI
Pension and postretirement plans	(17,097)	17,097
Hedged financial instruments	(1,709)	1,709
Total reclassification of stranded income tax effects to retained earnings from AOCI	$(18,806)	$18,806

Accounting pronouncements not yet adopted

In February 2016, the FASB issued guidance that requires an entity to recognize lease liabilities and a right-of-use asset for virtually all leases (other than those that meet the definition of a short-term lease) on the balance sheet and to disclose key information about the entity's leasing arrangements. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those periods, with earlier adoption permitted. This guidance must be adopted using a modified retrospective approach for all leases existing at, or entered into after, the date of initial adoption, with an option to elect to use certain transition relief. The company intends to adopt the updated standard in the first quarter of fiscal 2019. We have selected a new software tool to assist us in the abstracting process of our leases. This process began in our first quarter of fiscal 2018 and is anticipated to be complete in the second half of fiscal 2018. The company expects a significant impact to our Consolidated Financial Statements because of this guidance. The company currently has significant operating leases with our fiscal 2017 lease expense totaling $95.0 million.

In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairment. The guidance removed Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Companies will still have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. This guidance will be applied prospectively. Companies are required to disclose the nature of and reason for the change in accounting principle upon transition. That disclosure shall be provided in the first annual reporting period and in the interim period within the first annual reporting period when the company adopts this guidance. This change to the guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted after January 1, 2017. The company is currently evaluating when this guidance will be adopted and the impact on our Consolidated Financial Statements.

We have reviewed other recently issued accounting pronouncements and concluded that either they are not applicable to our business or that no material effect is expected upon future adoption.

4. RESTRUCTURING ACTIVITIES

On August 10, 2016, we announced the launch of Project Centennial, a comprehensive business and operational review. We identified opportunities to enhance revenue growth, streamline operations, improve efficiencies, and make investments that strengthen our competitive position and improve margins over the long term. We began Project Centennial with an evaluation of our brands, product mix, and organizational structure. We then developed strategic priorities to help us capitalize on retail and consumer changes. The primary objective is to improve margins and profitably grow the top-line over time. These priorities are as follows:

Reduce costs to fuel growth. The company is focusing on reducing costs in our purchased goods and services initiative and our supply chain optimization plan. Purchased goods and services operations will be centralized to create standardization, continuously improve, and develop consistent policies and specifications. Supply chain optimization intends to reduce operational complexity and capitalize on scale. This initiative includes, and will continue to include, consulting and other third-party costs as we finalize the organizational structure. We incurred $6.4 million and $15.4 million for these non-restructuring consulting costs during the sixteen weeks ended April 21, 2018 and April 22, 2017, respectively.

Develop leading capabilities. As of April 21, 2018, we report our financial results in either the DSD Segment or the Warehouse Segment. On May 3, 2017, the company announced an enhanced organizational structure designed to provide greater focus on the company's strategic objectives, emphasize brand growth and innovation in line with a national branded food company, drive enhanced accountability, reduce costs, and strengthen long-term strategy. The new organizational structure will establish two BUs, Fresh Packaged Bread and Snacking/Specialty, and realigns key leadership roles. The new structure also provides for centralized marketing, sales, supply chain, shared-services/administrative, and corporate strategy functions, each with more clearly defined roles and responsibilities. The company intends to transition to the new structure over the next several months with full implementation expected to be completed at the beginning of fiscal 2019. We began relocating certain employees during the third quarter of fiscal 2017 as we transition to the enhanced organizational structure. Reorganization costs of $1.5 million for relocating employees were incurred during the first quarter of fiscal 2018 in the restructuring charges line item on the Condensed Consolidated Statements of Operations. We anticipate incurring additional reorganization costs as we continue implementing the enhanced organizational structure. The current DSD and warehouse segmentation will remain until the new structure is in place.

On July 17, 2017, the company commenced a voluntary employee separation incentive plan (the "VSIP"). The VSIP was implemented as part of our effort to restructure, streamline operations, and better position the company for profitable growth. The VSIP election period closed on September 25, 2017 and resulted in approximately 325 employees accepting the offer. The separations began on September 7, 2017, and were substantially complete by the end of fiscal 2017. We recorded an aggregate charge of $29.1 million for the VSIP which includes a credit of $0.6 million when we estimated our VSIP liabilities during the sixteen weeks ended April 21, 2018. These charges consist primarily of employee severance and benefits-related costs and are recorded in the restructuring charges line item on our Condensed Consolidated Statements of Operations.

Reinvigorate core business. This objective is to invest in our brands to align brands to consumers to maximize our return on investment. We expect to incur significant incremental marketing costs annually for brand development. These costs will not be restructuring and will be recognized as incurred. Project Centennial also included a brand rationalization study to identify high-potential and established brands to focus on innovation and cash flow, respectively. The study, which concluded in our third quarter of fiscal 2017, changed the outlook for several brands and resulted in the recognition of an impairment on certain of these finite-lived and indefinite-lived intangible trademark assets in our third quarter of fiscal 2017. The total intangible asset impairment charges, which were recorded in the restructuring charges line item in our Condensed Consolidated Statements of Operations, were $66.2 million. Project Centennial is expected to be completed by our fiscal 2021.

On August 9, 2017, the company announced the closure of a Warehouse Segment snack cake plant in Winston-Salem, North Carolina. The bakery closed in November 2017. The closure costs were $4.4 million and consisted of $3.4 million for property, plant and equipment impairments and $1.0 million for employee termination benefits. These amounts are recorded in the restructuring and related impairment charges line item on our Condensed Consolidated Statements of Operations. The company continues to explore additional opportunities to streamline our core operations but as of April 21, 2018, we cannot estimate the additional costs to be incurred for this initiative.

Capitalize on product adjacencies. This initiative will focus on growing share in underdeveloped markets. Adjacencies are geographic and/or product categories that will allow us to leverage our competitive advantages. This can be done either organically with our high-potential brands or through strategic acquisitions. As of April 21, 2018, we cannot estimate the costs to be incurred for this initiative.

See Note 20, Segment Reporting, of Notes to Condensed Consolidated Financial Statements of this Form 10-Q for the allocation of restructuring charges to each of our segments. The table below presents the components of costs associated with Project Centennial (amounts in thousands):

	For the Sixteen Weeks Ended April 21, 2018	For the Sixteen Weeks Ended April 22, 2017
Restructuring and related impairment charges:		
Reorganization costs	$ 1,512	$—
VSIP	(597)	—
Employee termination benefits	344	—
Restructuring and related impairment charges (1)	1,259	—
Project Centennial implementation costs (2)	6,432	15,406
Total Project Centennial restructuring and implementation costs	$ 7,691	$ 15,406

(1) Presented on our Condensed Consolidated Statements of Operations.
(2) Costs are recorded in the selling, distribution, and administrative expenses line item of our Condensed Consolidated Statements of Operations.

The table below presents the components of, and changes in, our restructuring accruals (amounts in thousands):

	VSIP	Employee Termination Benefits[1]	Reorganization Costs[2]	Total
Liability balance at December 30, 2017	$25,022	$ 468	$ —	$25,490
Charges	(597)	344	1,512	1,259
Cash payments	(23,912)	(608)	(1,512)	(26,032)
Non-cash settlements	—	—	—	—
Liability balance (3) at April 21, 2018	$513	$ 204	$ —	$717

(1) Employee termination benefits are not related to the VSIP.
(2) Reorganization costs include employee relocation expenses.
(3) Recorded in the other accrued current liabilities line item of our Condensed Consolidated Balance Sheets.

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5. DIVESTITURE

On January 14, 2017, the company completed the sale of a non-core mix manufacturing business located in Cedar Rapids, Iowa for $44.0 million, an amount reduced by a working capital adjustment of $2.8 million, resulting in net proceeds of $41.2 million. This resulted in a gain on sale of $28.9 million, which was recognized in the first quarter of fiscal 2017. The gain on the sale is presented on the Condensed Consolidated Statements of Operations on the 'Gain on divestiture' line item. The mix manufacturing business was a small component of our Warehouse Segment and the disposal of this business does not represent a strategic shift in the segment's operations or financial results. The table below presents a computation of the gain on divestiture (amounts in thousands):

Cash consideration received	$41,230
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Property, plant, and equipment recorded as assets held for sale	3,824
Goodwill	801
Financial assets	7,730
Net derecognized amounts of identifiable assets sold	12,355
Gain on divestiture	$28,875

6. ACCUMULATED OTHER COMPREHENSIVE INCOME ("AOCI")

The company's total comprehensive income (loss) 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.

During the sixteen weeks ended April 21, 2018 and April 22, 2017, reclassifications out of AOCI were as follows (amounts in thousands):

Details about AOCI Components (Note 2)	Amount Reclassified from AOCI For the Sixteen Weeks Ended April 21, 2018	April 22, 2017	Affected Line Item in the Statement Where Net Income is Presented
Gains and losses on cash flow hedges:			