Flowers FOODS

ANNUAL REVIEW 2021

Fellow shareholders:

I am pleased to share Flowers Foods was able to execute on our strategic priorities to deliver another strong performance in fiscal 2021. Our results demonstrate the effectiveness of our strategy and the resiliency of our team. Our team members, especially our frontline workers, persevered in a challenging and dynamic operating environment, which included headwinds from inflationary pressures, supply shortages, labor challenges, and shifting demand as the COVID-19 pandemic continued to make a major impact on our day-to-day lives.

Despite these obstacles, we have consistently exceeded the long-term financial targets we issued in 2020 — annual sales growth of 1% to 2%, EBITDA growth of 4% to 6%, and EPS growth of 7% to 9%. As of fiscal year-end 2021, our compound annual growth rate remains ahead of each metric, using 2019 as the base year.

Executing on our four strategic priorities — developing our team, focusing on brands, prioritizing margins, and pursuing smart mergers and acquisitions (M&A) — is essential for maintaining this performance. In 2021, we made great strides toward furthering our progress in each of these areas.

Developing Our Team

2021 was an extraordinary year that challenged us all, and I'm grateful to our Flowers team, particularly our frontline workers, for their efforts. A scarcity of labor, and quarantines related to COVID-19 outbreaks and exposures, contributed to staffing shortages, making production difficult at times. Through it all, our Flowers team pulled together to overcome these obstacles, delivering our category-leading products to the shelves to meet consumer demand. Beyond our bakeries, we adapted our business to embrace remote working and used the new virtual work environment to expand the talent pool from which we recruit. This flexibility has allowed us to supplement an already strong team with talent from across the country, which is particularly important considering the additional capabilities required by our digital transformation.

Focusing on Brands

Focus on our brands was a key driver of our strong performance in 2021. Prior to the pandemic, we pivoted to become a more brand-focused company, and our leading brands continue to perform very well. In 2020, our household penetration grew significantly and we have held on to many of those new consumers while continuing to increase penetration of our leading brands in 2021. Innovation has been a key growth driver for our top brands, so we are making significant investments to continue that growth by bringing new products to market. Our new agile innovation group, which is tasked with accelerating the development of truly innovative, new products that are outside of our core categories, has commercialized its first product as part of that effort, our Dave's Killer Bread Snack Bars. We are excited about the promise of these new products, which brings us the ability to further capitalize on Dave's Killer Bread's strong brand by expanding the product line beyond bread.

Prioritizing Margins

Over the past two years, margins have taken on particular importance. In addition to our portfolio strategy to shift a greater percentage of our sales mix to higher-margin branded retail products, we have taken steps to offset pressure on margins from continued labor challenges and inflationary pressures. Through a combination of internal efficiencies, price increases, and steps to improve our hiring processes and working conditions, especially in the bakeries, we have saved a total of $60 million in costs the past two years. We expect additional cost savings measures that we've initiated, primarily focused on operational efficiencies and procurement, to deliver an incremental $25 to $35 million in annual savings beginning in 2022. In addition, our digital transformation initiative, in combination with our ERP system upgrade, is expected to drive greater sales and efficiencies, enabling us to meet or exceed our long-term financial targets.

Pursuing Smart M&A

We intend to continue our history of success with M&A and are actively monitoring the deal market, searching for candidates that can enhance our brand portfolio, extend our geographic presence, are a strong cultural fit, and bring incremental capabilities. Our steady free cash flow and strong balance sheet position us well to act when we have financial, commercial, and operational conviction. As always, we will maintain our disciplined approach, evaluating every opportunity through the lens of maximizing shareholder value, while minimizing risk.

Although global events and uncertainties continue to contribute to supply chain disruptions and inflationary pressures, we enter 2022 with confidence. Our resilient team has adapted to the new work environment and continues to thrive. Our brands have never been stronger, and we are investing to continue their growth. We also are investing in our future margin profile with our digital transformation initiative and other efficiency projects. We believe the near-term investment will drive sustained margin improvement. Finally, we aim to strengthen our existing business with M&A to bolster our already strong brand lineup and growth profile.

I am extremely proud of our 2021 performance and I am optimistic about the initiatives we have in place to ensure our success in 2022 and beyond. Although the operating environment remains challenging, our early 2022 results have been promising and we expect to maintain that momentum. As always, our dedicated Flowers team is focused on maximizing shareholder value and driving results in line with our long-term financial targets. I want to thank the thousands of Flowers team members for their steadfast work toward these goals, our board of directors for their continuing guidance, and you, our shareholders, for your confidence and ongoing support.

A. Ryals McMullian
President and CEO

MISSION

To delight consumers with delicious baked foods.

VISION

We strive to be a bold, visionary baked foods company with the consumer at the core of everything we do.

OUR VALUES

Honesty & Integrity – We always do what's right, maintaining high standards of ethical conduct.

Passion – We achieve our goals with energy and enthusiasm.

Respect & Inclusion – We create an inclusive, diverse, and respectful culture.

Humility – We strive to serve and learn from others as we pursue common goals.

Sustainability – We are committed to building a sustainable future for our team, our company, and our communities.

COMPANY FACTS

Business: The second-largest producer and marketer of packaged bakery foods in the U.S.

Bakeries: 46 efficient bakeries in 18 states

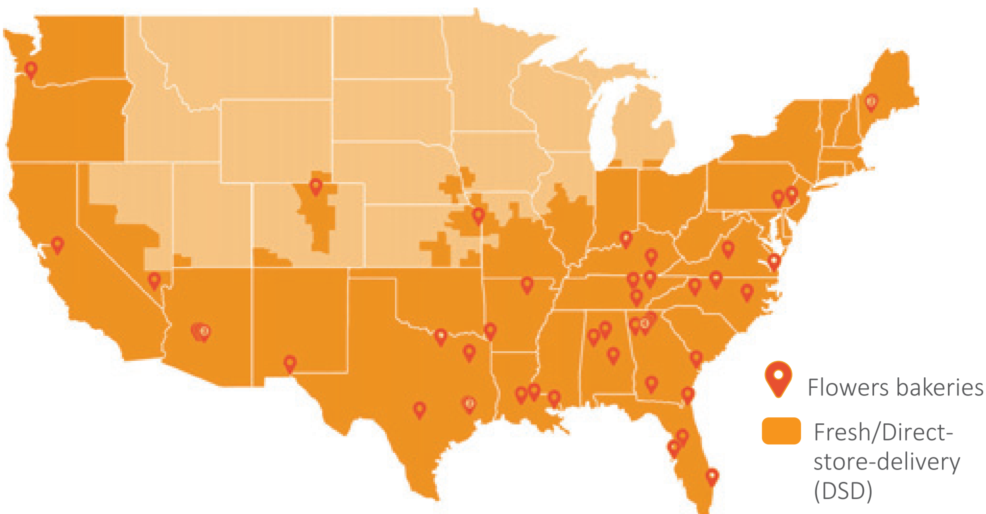
Employees: Approximately 8,900

Products: Breads, buns, rolls, snack cakes, and tortillas

Top brands: *Nature's Own, Dave's Killer Bread, Canyon Bakehouse, Tastykake, Wonder, Mrs. Freshley's*

Market: Retail and foodservice. Fresh bakery foods to more than 85% of the U.S. population through a network of independent distributors; frozen bakery items and snack cakes to customers' warehouses nationwide.

46 BAKERIES & FRESH/FROZEN DISTRIBUTION



FLOWERS STRENGTHS

- Leading brands in a large and stable consumer goods category
- Proven ability to grow share in underdeveloped product segments and geographic regions
- Executing initiatives to optimize portfolio and network profitability with a focus on managing costs, leveraging data-driven insights, and shifting mix to higher margin branded products
- Track record of disciplined M&A with seamless integration
- Consistent cash generation and track record of dividend growth
- Broad product range – breads, buns, rolls, snack cakes, tortillas
- Dual distribution capability – fresh bakery foods distributed daily by independent distributor partners and fresh and frozen products delivered to customers' warehouses nationwide
- Conservative financial position with investment-grade debt rating

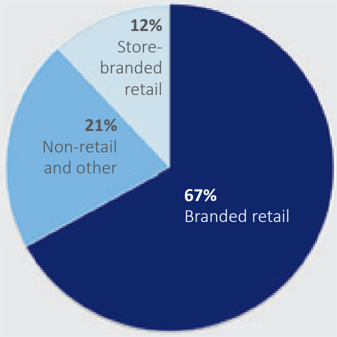
FINANCIAL HIGHLIGHTS (in thousands, except per share data)

For fiscal year	2021	2020†	% change
Sales	**$4,330,767**	$4,387,991	(1.3)%
Net income	**$206,187**	$152,318	35.4%
Adjusted net income*	**$263,137**	$277,999	(5.3)%
Net income per diluted common share	**$0.97**	$0.72	34.7%
Adjusted net income per diluted common share*	**$1.24**	$1.31	(5.3)%
Cash dividends per common share	**$0.83**	$0.79	5.1%

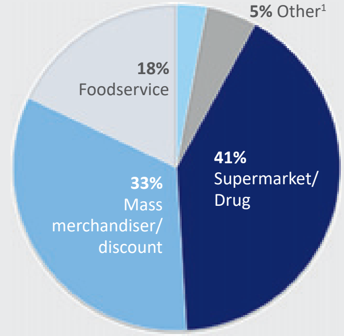
† *53-week year.*

* *Excluding items affecting comparability. See reconciliations of these non-GAAP financial measures in the following pages.*

FY 2021 SNAPSHOT



SALES BY CATEGORY



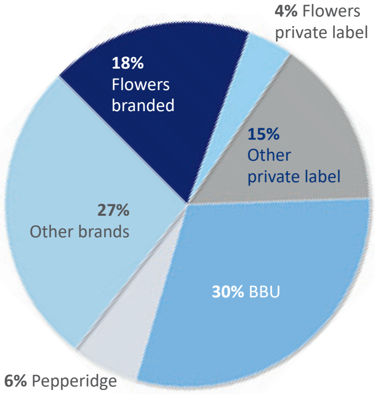
SALES CHANNELS

[1]Thrift stores, vending, retail distributor

Chart data should not be used for historical comparisons since some business has shifted and because of changes in geographic definition.

BRAND STRENGTHS

BRAND SHARE, TOTAL U.S.
Breads, Buns, Rolls



IRI Flowers Custom Database Total MultiOutlet – 52 weeks ending 12/26/21 Flowers Private Label Sales SDW. Chart data should not be used for historical comparison because of changes in geographic definition.

As America's #1 selling loaf bread brand, **Nature's Own** breads and buns have no artificial preservatives, colors, or flavors and no high fructose corn syrup. For an artisan experience, try Non-GMO Project Verified **Perfectly Crafted** breads, buns, and rolls.

The #1 organic bread in the U.S., **Dave's Killer Bread** is Non-GMO and USDA organic, with killer taste and texture, whole grain nutrition and no artificial ingredients. It will rock your world!

Hot dog, hamburger, or sandwich, **Wonder** is the way to go. A trusted brand for more than 100 years. Instill a little **Wonder** in what you're eating today!

A snack favorite since 1914, **Tastykake** is celebrated for its complete line of cakes, pies, and donuts. One taste, and you'll know why **Tastykake** has been a favorite for more than 100 years.

The #1 gluten-free bread brand in the U.S., **Canyon Bakehouse** is also free from dairy, nuts, and soy and made with 100% whole grains so everyone can Love Bread Again®.

True to its name, **Mrs. Freshley's** offers a wide variety of portioned and portable sweet baked snacks that are ready to go and perfect for busy, everyday lives.

CATEGORY STRENGTHS

$37.4 billion retail sales*
$5.8 billion foodservice sales**

- Across the grocery store segment, fresh bread and rolls is the **fourth-largest category**, in dollars, behind carbonated beverages, beer/ale/alcoholic cider, and salty snacks.***
- 97.8% of households buy fresh packaged bread.***
- Bread is the No. 1 grocery category in weekly true profits.****

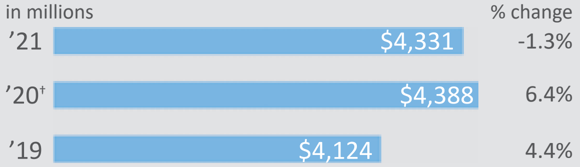
**IRI Custom Database – 52 weeks ending 12/26/21*
***Technomic FY2020 Plus Flowers FY 2021 Internal Data*
****IRI Panel Data*
*****Willard Bishop Super Study*
(Numbers should not be used for historical comparison because of change in IRI data.)

3-YEAR PERFORMANCE

SALES

in millions

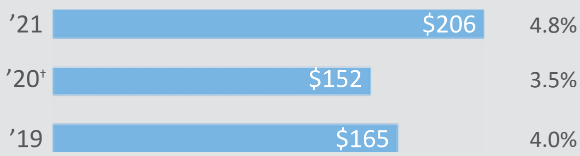
% change



NET INCOME

in millions

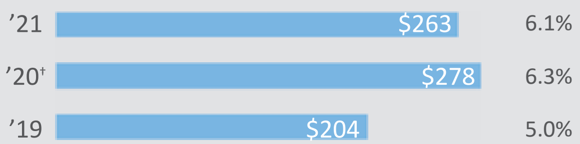
% of sales



ADJUSTED NET INCOME*

in millions

% of sales



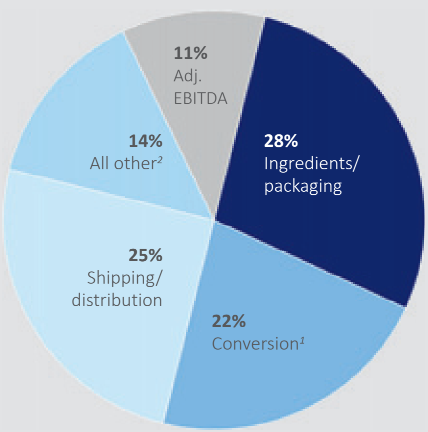
ADJUSTED EBITDA*

in millions

% margin

COMPONENTS OF ADJ. EBITDA*

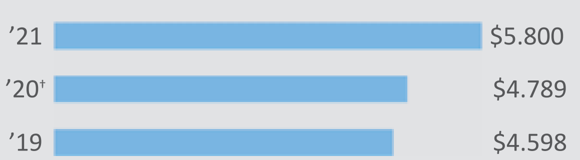
% of FY21 Sales



[1]Includes direct labor & indirect manufacturing expenses
[2]Includes selling & administrative expenses

MARKET CAPITALIZATION AT FISCAL YEAR END

in billions



† 53-week year
**See reconciliations of non-GAAP measures on the tables at right that are also available at flowersfoods.com. Click on Investor Center and select Financial Data, then Reconciliation of Non-GAAP Financial Measures.*

RECONCILIATION OF NET INCOME TO ADJUSTED NET INCOME

(in thousands)

For Fiscal Year	2021	2020	2019
Net income	$206,187	$152,318	$164,538
Pension plan settlement and curtailment loss	$302	$81,568	—
Acquisition-related costs	—	—	$16
Legal settlements and related costs	$17,316	$5,437	$21,063
ERP road mapping consulting costs	—	$3,272	—
Project Centennial consulting costs	—	$11,661	$586
Restructuring and related impairment charges	—	$26,612	$17,584
Multi-employer pension plan withdrawal costs	$2,475	—	—
Loss (recovery) on inferior ingredients	$708	$80	$(28)
Executive retirement agreement	—	—	$570
Other pension plan termination costs	—	$100	—
Other lease termination gain	$(1,983)	$(3,049)	—
Loss on extinguishment of debt	$12,112	—	—
Business process improvement consulting costs	$23,470	—	—
Acquisition consideration adjustment	$2,550	—	—
Adjusted net income	$263,137	$277,999	$204,329

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN**

(in thousands)

For Fiscal Year	2021	2020	2019
Net income	$206,187	$152,318	$164,538
Income tax expense	$64,585	$48,393	$47,545
Interest expense, net	$8,001	$12,094	$11,097
Loss on extinguishment of debt	$16,149	—	—
Depreciation and amortization	$136,559	$141,384	$144,228
EBITDA	$431,481	$354,189	$367,408
Acquisition-related costs	—	—	$22
Other pension (benefit) cost	$(405)	$(74)	$2,248
Pension plan settlement and curtailment loss	$403	$108,757	—
Legal settlements and related costs	$23,089	$7,250	$28,014
Restructuring and related impairment charges	—	$35,483	$23,524
Project Centennial consulting costs	—	$15,548	$784
Multi-employer pension plan withdrawal costs	$3,300	—	—
Other lease termination gain	$(2,644)	$(4,066)	—
Loss (recovery) on inferior ingredients	$944	$107	$(37)
Executive retirement agreement	—	—	$763
Other pension plan termination costs	—	$133	—
ERP road mapping consulting costs	—	$4,363	—
Business process improvement consulting costs	$31,293	—	—
Acquisition consideration adjustment	$3,400	—	—
Adjusted EBITDA	$490,861	$521,690	$422,726
Sales	$4,330,767	$4,387,991	$4,123,974
Adjusted EBITDA margin	11.3%	11.9%	10.3%

RECONCILIATION OF INCOME TAX EXPENSE TO ADJUSTED INCOME TAX EXPENSE

(in thousands)

For Fiscal Year	2021	2020	2019
Income tax expense	$64,585	$48,393	$47,545
Tax impact of:			
Pension plan settlement and curtailment loss	$101	$27,189	—
Legal settlements and related costs	$5,773	$1,813	$6,951
Acquisition-related costs	—	—	$6
Restructuring and related impairment charges	—	$8,871	$5,940
Project Centennial consulting costs	—	$3,887	$198
Other lease termination gain	$(661)	$(1,017)	—
Multi-employer pension plan withdrawal costs	$825	—	—
Loss (recovery) on inferior ingredients	$236	$27	$(9)
Executive retirement agreement	—	—	$193
Other pension plan termination costs	—	$33	—
ERP road mapping consulting costs	—	$1,091	—
Loss on extinguishment of debt	$4,037	—	—
Business process improvement consulting costs	$7,823	—	—
Acquisition consideration adjustment	$850	—	—
Adjusted income tax expense	$83,569	$90,287	$60,824

HOW WE WORK

At Flowers, we are committed to upholding our company's founding values, which for more than 100 years have centered on working ethically, responsibly, and with integrity. We nurture a culture that values always doing what's right, respecting every person, and teamwork.

We make a positive difference by:

- Producing wholesome and safe bakery foods that comply with all applicable regulatory requirements and standards and meet expectations for consistency, quality, and authenticity.
- Offering a selection of bakery foods to accommodate various preferences and dietary needs.
- Conserving energy and natural resources and improving operational efficiencies and processes to reduce our impact on the environment.
- Fostering a safe, inclusive, respectful, and fair work environment that allows people of different backgrounds, experiences, and perspectives to achieve common business and professional goals.
- Charitable giving and volunteerism that focuses on feeding families, helping children, and supporting veterans.

FOOD SAFETY AND QUALITY

The safety and quality of our bakery foods are responsibilities we take very seriously. We operate clean and efficient bakeries that are regularly inspected by local, state, and industry agencies. We also conduct comprehensive product safety and quality checks at various production points, finished product evaluations, and shelf-life tests.

OFFERING CONSUMERS A CHOICE

Flowers Foods offers consumers a wide selection of delicious bakery foods that meet various dietary needs, preferences, and lifestyles. We bake breads with no artificial preservatives, colors, or flavors, and no high fructose corn syrup. We offer varieties that are sugar free, lower in calories or sodium, Non-GMO Project Verified, USDA Organic, or gluten-free. In total, products targeting specific nutrition trends accounted for approximately 44% of total branded retail revenue in 2021.

SUSTAINABILITY EFFORTS

At Flowers, we recognize that sustainability makes our company stronger and benefits our communities and the environment. We are committed to applying sustainability processes to all aspects of our business and to exploring ways to prevent waste of water, packaging, energy, and other resources.

In 2021, we continued to work toward our 2025 sustainability goals to reduce manufacturing greenhouse gas emissions, reduce water use, reduce waste to landfill company-wide, convert packaging to recyclable/reusable or compostable material, and introduce recycled materials into packaging. During the year, we sourced 100% RSPO[1]-certified palm oil for all cake products and maintained RSPO Supply Chain Certification for all of our cake bakeries.

Last year, the U.S. Environmental Protection Agency (EPA) recognized 14 of our bakeries for achieving ENERGY STAR certification, and Flowers Foods partnered with the EPA and Department of Energy's (DOE's) Better Plants Programs. Additionally, our Lynchburg, Virginia, bakery received the DOE Better Plants Project Award for its energy efficiency upgrades. During the year, we also promoted sustainable cleaning practices to conserve water, expanded our waste and recycling programs, and implemented new logistics programs to reduce emissions, among other actions. Read our latest Sustainability Report at flowersfoods.com.

DIVERSITY, EQUITY, AND INCLUSION (DEI)

We believe in the power of people from diverse backgrounds and experiences coming together under a common set of values to achieve uncommon results. We aspire to be an inclusive workplace – where all perspectives are valued, all contributions are celebrated, and everyone has equal opportunity to learn, grow, and succeed.

SECOND CHANCE EMPLOYER

Our hiring practices do not require job candidates to share criminal background information. Since acquiring Dave's Killer Bread in 2015, we have actively encouraged our bakeries to work with local agencies to find qualified individuals who may be excluded by traditional criminal background checks. Additionally, the Dave's Killer Bread Foundation was established in 2015 to inspire other businesses to become Second Chance Employers. Learn more at dkbfoundation.org.

GIVING BACK

Through our network of bakeries, we support Feeding America and independent food banks, soup kitchens, and other groups providing food and meals to those in need. In 2021, we donated $7.5 million in bakery foods[2] toward this effort and were recognized as a Feeding America Guiding Partner.

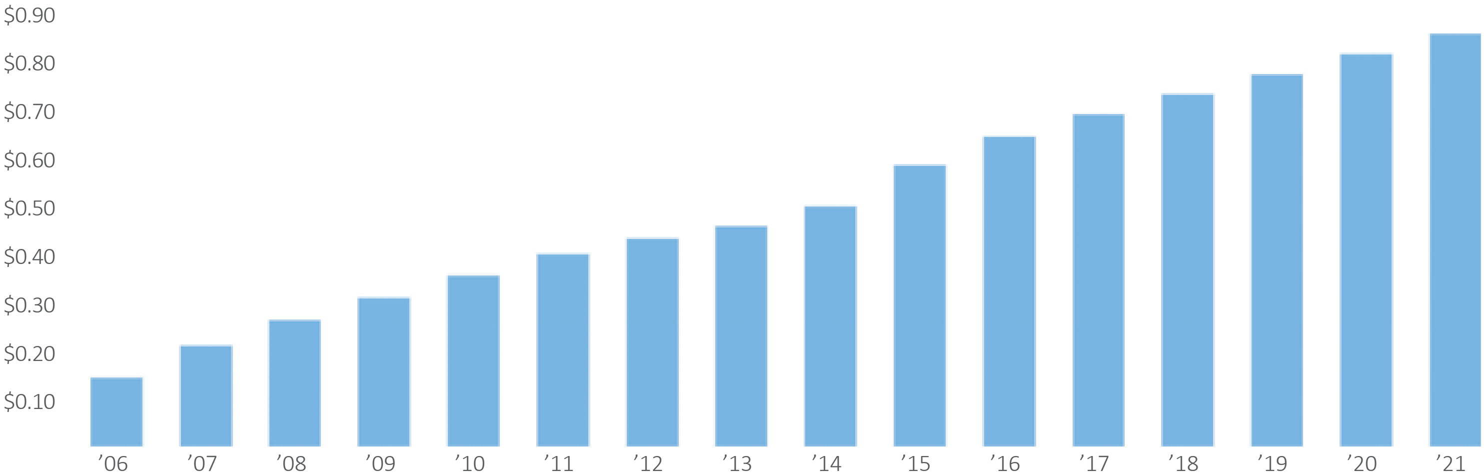
We also continued our support of racial equality and education this year with a collective $1.5 million donation to the Thurgood Marshall College Fund (TMCF), the United Negro College Fund, and the NAACP Legal Defense Fund. Flowers Foods was a sponsor of #RISE, TMCF's 2021 annual homecoming and fundraising event.

We honor the service and sacrifice of those in the U.S. military and their families. Since 2018, our Wonder and Tastykake brands have proudly supported the USO as "A Force Behind the Forces," pledging to donate up to $1.8 million to the organization by 2022. We recruit U.S. military veterans, employing more than 550 veterans[3] in 2021.

Our bakery teams support a variety of charities in their local communities, including those that work to improve the lives of children.

[1]Roundtable on Sustainable Palm Oil *[2] Total value of product donations in wholesale dollars*
[3] A veteran is any individual who has served honorably on active duty in the Armed Forces of the United States.

DIVIDENDS PER SHARE 2006 – 2021



RECONCILIATION OF NET INCOME PER DILUTED COMMON SHARE TO ADJUSTED NET INCOME PER DILUTED COMMON SHARE

For Fiscal Year	2021	2020
Net income per diluted common share	$0.97	$0.72
Pension plan settlement and curtailment loss	—	$0.38
Legal settlements and related costs	$0.08	$0.03
Project Centennial consulting costs	—	$0.05
Restructuring and related impairment charges	—	$0.13
Loss on inferior ingredients	—	—
Other pension plan termination costs	—	—
Other lease termination gain	$(0.01)	$(0.01)
ERP road mapping consulting costs	—	$0.02
Business process improvement consulting costs	$0.11	—
Acquisition consideration adjustment	$0.01	—
Multi-employer pension plan withdrawal costs	$0.01	—
Loss on extinguishment of debt	$0.06	—
Adjusted net income per diluted common share	$1.24	$1.31

(Certain amounts may not compute due to rounding)

SHAREHOLDER INFORMATION

ANNUAL SHAREHOLDERS MEETING: Flowers Foods' Annual Shareholders Meeting will be held at 11:00 a.m. Eastern Time on Thursday, May 26, 2022, virtually, via the Internet at www.virtualshareholdermeeting.com/FLO2022. To participate in the Annual Shareholders Meeting, shareholders will need the 16-digit control number found on their proxy card, voting instructions form, or notice of internet availability of proxy materials.

FINANCIAL DOCUMENTS & WEBCASTS: Investors can find financial documents, notices of events, and archived webcasts on flowersfoods.com. To receive a printed copy of Flowers Foods' 2021 Form 10-K filed with the Securities and Exchange Commission, please contact Shareholder Relations.

SHAREHOLDER SERVICES: As the transfer agent for Flowers Foods, Computershare offers direct registration of securities, dividend reinvestment, direct stock purchase, ACH deposit of dividends, stock certificate replacement, address changes, and assistance with stock transfers. Contact Computershare by calling toll free 800.568.3476; by emailing web.queries@computershare.com; or by writing to P.O. Box 505005, Louisville, KY 40233-5005. Shareholders may register their accounts for online access by entering a login and password on Computershare's secure site at https://www-us.computershare.com/investor.

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SVP Finance & Investor Relations
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jtrieck@flowersfoods.com

SHAREHOLDER RELATIONS
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CORPORATE OFFICE
1919 Flowers Circle
Thomasville, GA 31757
229.226.9110
flowersfoods.com

MEDIA INQUIRIES
flowersfoods.com/contact/media-inquiries

Flowers FOODS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 1, 2022

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 **(State or other jurisdiction of incorporation or organization)**	**58-2582379** **(IRS Employer Identification No.)**
1919 Flowers Circle **Thomasville, Georgia** **(Address of principal executive offices)**	**31757** **(Zip Code)**

Registrant's telephone number, including area code:
(229) 226-9110

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	FLO	NYSE

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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	☐	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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of the shares of common stock on the New York Stock Exchange on July 17, 2021, was $4,982,859,803.

The number of shares of the registrant's Common Stock outstanding as of February 17, 2022 was 211,536,622.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2022 Annual Meeting of Shareholders to be held May 26, 2022, which is expected to be filed with the Securities and Exchange Commission on or about April 12, 2022, have been incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

Auditor Firm Id: 238 Auditor Name: PricewaterhouseCoopers LLP Auditor Location: Atlanta, Georgia

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FORM 10-K REPORT

TABLE OF CONTENTS

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 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 the ultimate impact of the novel strain of coronavirus ("COVID-19") on our business, results of operations and financial condition and are often identified by the use of words and phrases such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "will," "would," "is likely to," "is expected to" or "will continue," or the negative of these terms or other comparable terminology. These forward-looking statements are based upon assumptions we believe are reasonable.

Forward-looking statements are based on current information and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected. Certain factors that may cause actual results, performance, liquidity, and achievements to differ materially from those projected are discussed in this Annual Report on Form 10-K (the "Form 10-K") 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; (vi) laws and regulations (including environmental and health-related issues); and (vii) accounting standards or tax rates in the markets in which we operate;
- the ultimate impact of the COVID-19 pandemic and future responses and/or measures taken in response thereto, including, but not limited to, new and emerging variants of the virus and the efficacy and distribution of vaccines, which are highly uncertain and are difficult to predict;
- the loss or financial instability of any significant customer(s), including as a result of product recalls or safety concerns related to our products;
- 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 implement and achieve our environmental, social, and governance goals in accordance with suppliers, regulations, and customers;
- our ability to execute our business strategies 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 (including decreased volumes), and the pricing environment among competitors within the industry;
- our ability to adjust pricing to offset, or partially offset, inflationary pressure on the cost of our products;
- 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 distributor partners;
- increasing legal complexity and legal proceedings that we are or may become subject to;
- labor shortages and turnover or increases in employee and employee-related costs;
- the credit, business, and legal risks associated with independent distributor partners and customers, which operate in the highly competitive retail food and foodservice industries;
- any business disruptions due to political instability, pandemics, 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 ("IT") systems to perform adequately, including any interruptions, intrusions or security breaches of such systems or risks associated with the planned implementation of the upgrade of our enterprise resource planning ("ERP") system; and
- the potential impact of climate change on the company, including physical and transition risks, higher regulatory and compliance costs, reputational risks, and availability of capital on attractive terms.

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

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

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

PART I

Item 1. *Business*

The Company

Flowers Foods, Inc. (which we reference to herein as "we," "our," "us," the "company," "Flowers" or "Flowers Foods"), founded in 1919 as a Georgia corporation and headquartered in Thomasville, Georgia, is currently the second-largest producer and marketer of packaged bakery foods in the United States ("U.S."). Our principal products include breads, buns, rolls, snack cakes, and tortillas and are sold under a variety of brand names, including *Nature's Own, Dave's Killer Bread ("DKB"), Wonder, Canyon Bakehouse, Tastykake,* and *Mrs. Freshley's.* Our brands are among the best known in the baking industry. Many of our brands have a major presence in the product categories in which they compete.

Flowers' strategic priorities include developing our team, focusing on our brands, prioritizing our margins, and proactively seeking out smart, disciplined acquisitions and are described further in the following section. We believe executing on our strategic priorities will drive future growth and margin expansion and deliver meaningful shareholder value over time.

COVID-19

We continue to monitor the impact of the ongoing COVID-19 pandemic on our business operations, results of operations, and liquidity. Our operations may continue to experience disruption due to the continued uncertainty caused by the pandemic, including but not limited to additional variants of the COVID-19 virus, new geographic hotspots, changes in the number of COVID-19 cases, the rate of vaccination within the U.S. population and the efficacy of the vaccines, changes in the global and U.S. economic environment, and changes in pandemic safety policies.

In recognition and support of our frontline workers, we paid a total of $5.2 million and $12.3 million in appreciation bonuses to eligible hourly and non-exempt employees, leased labor, and contract workers in Fiscal 2021 and 2020, respectively. These appreciation bonuses are in addition to the company's annual performance-based cash incentive plan, in which all Flowers employees participate.

Our Fiscal 2021 sales declined compared to Fiscal 2020 primarily due to the additional week in the prior year. Fiscal 2020 benefitted from the significant rise in demand for our branded retail products at the beginning of the COVID-19 pandemic, as well as positive shifts in mix throughout the year and the additional week. Comparatively, Fiscal 2021 benefitted from favorable pricing, a continued positive shift in mix from store branded retail to branded retail products, and a partial recovery in non-retail sales. As steps to mitigate the pandemic have waned, including the easing of mandatory shutdowns and restaurant closures, our non-retail sales have been recovering. Compared to our historical pre-pandemic sales, our Fiscal 2021 sales were elevated as we continued to benefit from the positive mix shift to branded retail products and favorable pricing, partially offset by volume declines. The unpredictability of the pandemic makes forecasting this recovery in non-retail sales difficult, but such a recovery or a significant shift in mix from branded retail to store branded retail products could negatively impact our results of operations, including our net sales, earnings, and cash flows. For additional discussion on the impact of the pandemic on our results of operations, refer to Part II, Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of this Form 10-K.

We believe we have sufficient liquidity to satisfy our cash needs and we continue to take steps to preserve adequate liquidity during the ongoing pandemic as further discussed in Part II, Item 7., *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of this Form 10-K. As discussed further in the "Transformation Strategy Initiatives" section below, we are continuing to move forward with the ERP system upgrade and our digital strategy initiatives and do not anticipate the pandemic to materially alter the timing of these initiatives.

Our main focus throughout the pandemic has been and continues to be the health and safety of our team members and independent distributor partners. From the start of the pandemic, we have followed the guidance of the U.S. Centers for Disease Control and Prevention (CDC), taking a number of recommended steps to safeguard those in our facilities. These steps included, but are not limited to, monitoring the symptoms of everyone entering our facilities, requiring face coverings, maintaining (where possible) social distancing of six feet, conducting enhanced cleaning and sanitizing of common areas and frequently touched surfaces, performing decontamination of work areas and equipment when there is a confirmed or presumptive case of COVID-19 at a facility, and contact tracing. Company-wide bans on non-essential travel and non-essential visitors at all locations were put into place, corporate offices were closed, and office staff were directed to work remotely. In addition, the company issued regular communications about COVID-19 prevention steps. When COVID-19 vaccinations became available, we shared educational information with our team members and encouraged vaccination for those eligible.

We have followed the guidance issued by the CDC and the U.S. Occupational Safety and Health Administration (OSHA) and modified our face mask and wellness screening policies to align with local, state, and workplace safety regulations. We remain vigilant in reporting COVID-19 cases in our facilities and continue to evaluate our pandemic safety measures as the pandemic evolves. The majority of employees in non-production roles continue to work remotely. We intend to implement a work policy in 2022 addressing guidelines for three distinct work personas: full-time remote, full-time in office, or flex, a combination of the two. These plans may be impacted by, among other things, consideration of pandemic safety measures, the rate of vaccinations and the efficacy of the vaccines, the threat of additional COVID-19 variants, and the ability of office staff to work effectively from remote locations. Although the impact of these measures, or any other measures adopted by governmental authorities, on our business and workforce is uncertain, these requirements may result in increased costs and could have an adverse effect on our business, results of operations, and financial condition.

While we have had no temporary production interruptions in Fiscal 2021 due to COVID-19, such interruptions are possible in the future due to the uncertainty of the pandemic. The potential closure of several of our bakeries across the country at the same time – or in close succession – could negatively affect our ability to meet our production requirements, even if the interruption is temporary. Additionally, unforeseen disruptions in other areas of our operations, including but not limited to procurement of raw materials, transport of our products, or recovery by our foodservice customers, could negatively impact our operations, results of operations, cash flows, and liquidity.

During Fiscal 2021, we have experienced labor shortages at some of our bakeries. A number of factors may continue to adversely affect the labor force available to us, including high employment and government regulations. Other factors that may negatively affect our ability to efficiently operate our production lines or run at full capacity might include, but are not limited to, a labor shortage or increased turnover rates within our workforce that could lead to increased labor costs, including additional overtime to meet demand and higher wage rates to attract and retain workers. An overall labor shortage, lack of skilled labor, increased turnover or labor inflation could have a material adverse impact on the company’s operations, results of operations, liquidity, or cash flows.

Strategic Initiatives

We are a brand-focused company dedicated to the consumer and committed to growing our most profitable brands through innovation, market expansion, and prudent mergers and acquisitions (“M&A”). Our strategic priorities and our long-term goals are as follows:

Strategic Priorities:

- *Develop team:* Capabilities to build brands and create value.
- *Focus on brands:* Enhance relevancy and expand presence. Invest in our brands to align with consumers to maximize our return on investment.
- *Prioritize margins:* Optimize the portfolio and supply chain.
- *Smart M&A:* Disciplined approach to acquisitions in the grain-based foods arena that enhance our branded portfolio and margin profile.

Long-term Goals:

- Grow sales by 1% to 2% annually (excluding any future acquisitions).
- Grow EBITDA by 4% to 6% annually (excluding any future acquisitions) (The company defines EBITDA as earnings before interest, taxes, depreciation and amortization.).
- Grow earnings per share by 7% to 9% annually.

The key to our success in achieving our goals is our talented and dedicated team. We recognize the importance of investing in our people as further discussed in the “Human Capital Resources” section below, which details how we attract, retain, and develop our team. Additionally, we recognize the importance of realigning people and responsibilities in successfully implementing our long-term strategies. This realignment can take the form of organizational changes or providing crucial tools, including investments in our information systems. During Fiscal 2020, we implemented organizational changes to better align the team to our new strategies, hired new team members with unique expertise and insight, and created the transformation office. The transformation office is a cross-functional team responsible for over-overseeing the implementation of our strategic priorities, including our digital and ERP initiatives, which are discussed in more detail under the “Transformation Strategy Initiatives” section below.

A major focus of our long-term strategy is to evolve our sales portfolio to higher margin, value-added branded retail products that we expect will generate top line growth and improve overall profitability. We expect an optimized portfolio will drive share gains by targeting growth segments with new, innovative products. We have established clear roles for the brands and product lines within our portfolio to enable more targeted decision-making on brand investment. Over the past several years, we have completed brand rationalization initiatives resulting in a more streamlined brand and product assortment, reduced brand portfolio complexity, and increased efficiency. In Fiscal 2020, our sales mix shifted to more profitable branded retail products due to increases in at-home dining resulting from COVID-19, which led to increased sales and operating income, further illustrating the potential of an optimized portfolio. In Fiscal 2021, we have continued to benefit from this positive shift in sales mix.

As we implement our targeted sales portfolio strategy, the flexibility of our production and distribution systems allows us to pivot capacity to meet this changing demand. As an example, in Fiscal 2020, we repurposed bakery assets at our Lynchburg, Virginia facility, converting it to an all-organic bakery to meet rising demand for our *DKB* products and to better serve east coast markets with fresher product and reduce distribution costs. Also, we believe our flexible bakery system has been crucial in navigating demand changes caused by the pandemic as we have been able to quickly shift production to high demand products and adjust distribution where needed. We are continuing to optimize our distribution system by reducing network complexity through depot consolidation and reducing transport miles.

M&A has always been, and we expect will continue to be, an important part of our long-term growth strategy. We employ a disciplined approach to M&A, seeking out candidates primarily in the grain-based foods arena that will enhance our branded portfolio, extend our geographic presence, are a strong cultural fit, and add enhanced capabilities to our company. We believe our strong balance sheet and cash flow generation will enable us to execute our M&A strategy.

Transformation Strategy Initiatives

In the second half of Fiscal 2020, we launched initiatives to transform how we operate our business. The primary goals of these new initiatives are: (1) enable a more agile business model, empowering the organization by fundamentally redesigning core business processes and our ways of working; (2) embed digital capabilities and transform the way we engage with our consumers, customers and employees; and (3) modernize and simplify our application and technology infrastructure landscape, inclusive of the upgrade of our ERP system. We completed the initial planning and road mapping phase of these multi-year transformation initiatives at the end of Fiscal 2020 and transitioned into the design phase in early Fiscal 2021.

Digital Strategy Initiatives

Our digital strategy initiatives include investments in digital domains of e-commerce, autonomous planning, and bakery of the future. In e-commerce, we strive to become a category and market share leader, engage with the consumer through digital platforms and marketplaces, and support our retail partners' omnichannel strategies. The autonomous planning domain encompasses predictive ordering, cost-to-serve modeling, integrated business planning, and supply and demand forecasting, among other areas. Bakery of the future involves transforming our current manufacturing processes and operational visibility to apply industry-leading digital manufacturing tools, such as real-time performance management and visibility, automation of repetitive processes, standardization of processes and procedures, and sensor-based quality monitoring tools to improve consistency and quality.

Combined, these digital domains are expected to improve data visibility and efficiencies while automating many of our processes. When fully implemented, we expect this work will further our brand efforts, bring us ever closer to the consumer, increase operational efficiencies, and deliver higher-quality, real-time insights, which will in turn enable more predictive business decision-making. We transitioned into the implementation phase for the e-commerce, autonomous planning, and bakery of the future domains and selected two bakeries for the pilot program for bakery of the future and autonomous planning in Fiscal 2021.

ERP Upgrade

This initiative includes upgrading our information system to a more robust platform and is expected to improve data management and efficiencies while automating many of our processes. During the first quarter of Fiscal 2021, we engaged a leading, global consulting firm to assist us in planning and implementing the upgrade of our ERP platform and serve as the system integrator for the project. We transitioned into the build phase of the project in the beginning of Fiscal 2022.

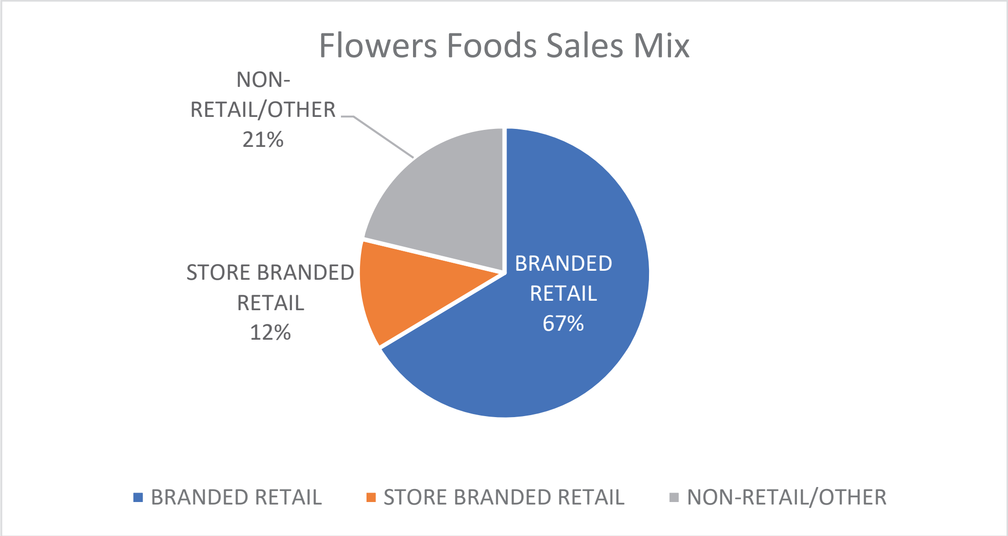
We expect this initiative will require significant capital investment and expense over the next several years. See Item 1A., *Risk Factors*, "We may experience difficulties in designing and implementing the upgrade of our ERP system."

Segment

Since the beginning of Fiscal 2019, we have managed our business as one operating segment. The company concluded it has one operating segment based on the nature of the products the company sells, its intertwined production and distribution model, the internal management structure and information that is regularly reviewed by the chief executive officer ("CEO"), who is the chief operating decision maker, for the purpose of assessing performance and allocating resources. Beginning with the first quarter of Fiscal 2019, the comparative periods have been presented on a consolidated basis due to the change to a single operating segment. See Note 2, *Summary of Significant Accounting Policies*, of Notes to Consolidated Financial Statements of this Form 10-K for detailed financial information about our operating segment.

Brands & Products

We report our sales as branded retail, store branded retail, or non-retail and other. The non-retail and other category includes foodservice, restaurant, institutional, vending, thrift stores, and contract manufacturing. The chart below presents our Fiscal 2021 sales by sales category (source: internal sales data warehouse ("SDW"); amounts may not compute due to rounding).



Our brands are some of the best-known in the U.S. fresh packaged bread industry and many of them hold leading market positions in the categories in which they compete. We believe having a well-diversified portfolio of brands allows us to be more competitive in the marketplace and appeal to a broader range of consumers. Our principal products are breads, buns, rolls, snack cakes, and tortillas. The table below presents the major brands within our diversified brand portfolio:

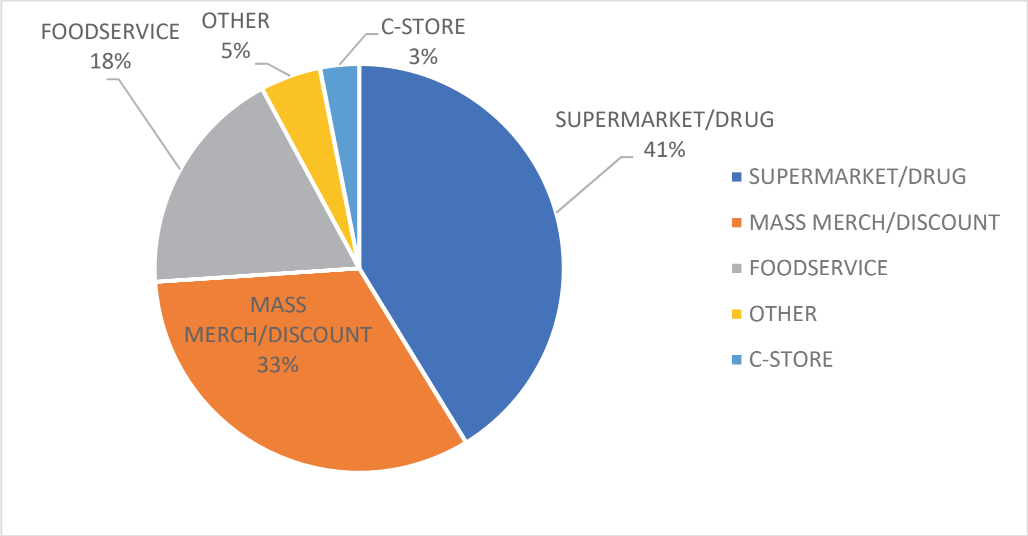
Strategic Positioning	Key Brands
Mainstream	*Nature's Own, Wonder, Tastykake*
Organic	*Dave's Killer Bread*
Gluten Free	*Canyon Bakehouse*

Brand Highlights

- *Nature's Own* is the best-selling loaf bread in the U.S. *Nature's Own's* sales, at retail, were $1.3 billion for Fiscal 2021.
- *Nature's Own* Honey Wheat is the #1 Universal Product Code ("UPC") in the U.S. Fresh Packaged Bread category based on dollars and units. *Nature's Own* Butterbread is the #2 UPC in the loaf category based on dollars and units. (Source: *IRI Total US MultiOutlet+C-Store L52 Weeks Ending 12/26/21*)
- *DKB* is the #1 selling organic brand in the U.S. and the company's #2 brand, with the top-selling organic brand in four different segments (Loaf, Bagels, Breakfast Bread, and English Muffins). (Source: *IRI Total US MultiOutlet+C-Store L52 Weeks Ending 12/26/21*) *DKB's* sales, at retail, were $875 million for Fiscal 2021.
- *Canyon Bakehouse,* acquired at the end of Fiscal 2018, is the #1 selling gluten-free bread brand in the U.S. (Source: *IRI Total US MultiOutlet+C-Store L52 Weeks Ending 12/26/21*) *Canyon Bakehouse's* sales, at retail, were $137 million for Fiscal 2021.

- *Wonder*, over 100 years old, enjoys 98% brand awareness (Source: *Kantar Brand Health Tracking Study - Q4 2020*). *Wonder's* Classic White loaf is the #2 UPC in the white loaf segment based on dollars and units in the U.S. *Wonder's* sales, at retail, were $438 million for Fiscal 2021 (Source: *IRI Total US MultiOutlet+C-Store L52 Weeks Ending 12/26/21*)

Our brands and products are sold through various channels throughout the U.S. The table below presents our sales by channel for Fiscal 2021 (source: internal SDW; amounts may not compute due to rounding).



* All Other includes thrift store, vending, and retail distributor sales.

Marketing

We support our key brands with an advertising and marketing effort that targets consumers through electronic and in-store coupons, social media (such as Facebook and Twitter), digital media (including e-newsletters to consumers), websites (our brand sites and third-party sites), event and sports marketing, on-package promotional offers and sweepstakes, and print advertising. When appropriate, we may join other sponsors with promotional tie-ins. We often focus our marketing efforts on specific products and holidays, such as hamburger and hot dog bun sales during Memorial Day, the Fourth of July, and Labor Day, and snack cakes for specific seasons. Additionally, we have made and are continuing to make marketing investments to target e-commerce sales as consumers shift to more online shopping alternatives, such as grocery delivery sites, retailer websites and apps, among others.

Customers

Our top 10 customers in Fiscal 2021 accounted for 53.7% of sales. During Fiscal 2021, our largest customer, Walmart/Sam's Club, represented 21.2% of the company's sales. The loss of, or a material negative change in our relationship with, Walmart/Sam's Club or any other major customer could have a material adverse effect on our business. Walmart/Sam's Club was the only customer to account for 10% or more of our sales during Fiscal 2021, 2020, and 2019.

Fresh baked foods' customers include mass merchandisers, supermarkets and other retailers, restaurants, quick-serve chains, food wholesalers, institutions, dollar stores, and vending companies. We also sell returned and surplus product through a system of thrift stores. The company currently operates 243 such stores and reported sales of $60.3 million during Fiscal 2021 from these outlets.

We also (1) supply national and regional restaurants, institutions and foodservice distributors, and retail in-store bakeries with breads and rolls; (2) sell packaged bakery products to wholesale distributors for ultimate sale to a wide variety of food outlets; and (3) sell packaged snack cakes primarily to customers who distribute them nationwide through multiple channels of distribution, including mass merchandisers, supermarkets, vending outlets and convenience stores. In certain circumstances, we enter into co-packing arrangements with retail customers or other food companies, some of which are competitors. Although we service public health care, military commissaries, and prisons, among other governmental institutions, we do not have any material government contracts.

Distribution

We distribute our products through a direct-store-delivery ("DSD") distribution system and a warehouse delivery system. The DSD distribution system involves aggregating order levels and delivering products from bakeries to independent distributors for sale and direct delivery to customer stores. The independent distributors are responsible for ordering products, stocking shelves, maintaining special displays, and developing and maintaining good customer relations to ensure adequate inventory and removing unsold goods. The warehouse delivery system involves primarily delivering our products to customers' warehouses.

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

Our DSD distribution system is comprised of three types of territories: (1) independent distributor-owned and operated territories (independent distributors own the rights to distribute certain brands of our fresh packaged bakery foods in defined geographic markets); (2) distribution rights that are classified as available for sale in the Consolidated Balance Sheets; and (3) other company operated territories. The table below presents the approximate number of territories used by the company as of January 1, 2022:

Type of territory	Number of territories
Independent distributor-owned and operated territories	5,340
Territories classified as available for sale	432
Other company operated territories	80
Total territories	5,852

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

Intellectual Property

We own a number of trademarks, trade names, patents, and licenses. The company also sells products under franchised and licensed trademarks and trade names which we do not own pursuant to contractual arrangements. We consider all of our trademarks and trade names important to our business since we use them to build strong brand awareness and consumer loyalty.

Raw Materials

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

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

Regulations

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

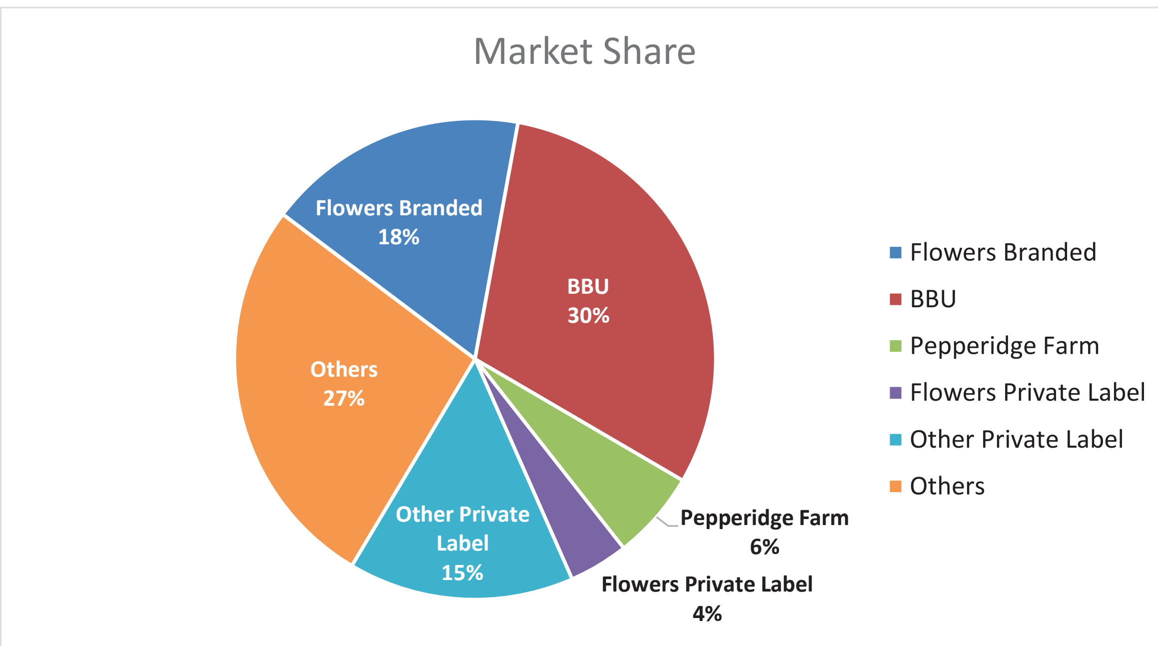
Advertising of our brands is subject to regulation by the Federal Trade Commission, and we are subject to certain health and safety regulations, including those issued under the Occupational Safety and Health Act.

The cost of compliance with such laws and regulations has not had a material adverse effect on the company's business. We believe we are currently in substantial compliance with all material federal, state and local laws and regulations affecting the company and its properties.

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

Competitive Overview

The U.S. market for fresh and frozen bakery products is estimated at $43.2 billion at retail. This category is intensely competitive and has continued to experience consolidation. Flowers Foods is currently the second-largest company in the U.S. fresh baking industry based on market share as presented in the following chart (amounts may not compute due to rounding). (Source: IRI Flowers custom database, 52 weeks ending 12-26-21; Flowers private label sales from SDW):



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

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

Competition in the baking industry continues to be driven by a number of factors, including the ability to serve retail and foodservice customers, generational changes in family-owned businesses, and competitors' promotional efforts on branded bread and store brands. Competition typically is based on the ability to target changing consumer preferences, product availability (including through e-commerce channels), product quality, brand loyalty, price, and effective promotions. Customer service, including frequent deliveries to keep store shelves well-stocked, is also a competitive factor.

The company also faces competition from store brands that are produced either by us or our competitors. Store brands (also known as “private label”) have been offered by food retailers for decades. With the growth of mass merchandisers like Walmart and the ongoing consolidation of regional supermarkets into larger operations, store brands have become a significant competitor to the company in those areas where the company does not have the contract to produce the store brand. The store brand share of retail fresh packaged bread in the U.S. accounts for approximately 19% of the dollar sales and approximately 30% of unit sales, though its share has steadily declined over the past seven years, in particular, the last two years.

Human Capital Resources

As of January 1, 2022 Flowers and its subsidiaries had approximately 8,900 employees located throughout the U.S. and approximately 4,300 long-term leased employees. Approximately 970 employees are covered by collective bargaining agreements and there are no material outstanding labor disputes.

Our legacy of excellence is built on 100+ years of hard work by thousands of Flowers team members. As W.H. Flowers, Jr. said, “*The key to any enterprise or goal is people. People of character, people of integrity, people who don’t mind working and taking advantage of their opportunity.*” We continue to strive toward a people-centric legacy by implementing initiatives that enhance the lives of each and every employee—current and prospective.

Flowers aims to attract a qualified workforce through an inclusive and accessible recruiting process that utilizes online recruiting platforms, campus outreach, apprenticeships, internships, and job fairs. In 2022, we plan to advance our partnership with the Thurgood Marshall College Fund by leveraging its Talent Sourcing program in our recruiting efforts.

Flowers is also a proud second chance employer, furthering the commitment started by its *DKB* brand. Established in 2015, the Dave’s Killer Bread Foundation helps businesses create meaningful and sustainable employment opportunities for individuals impacted by the criminal justice system. At Flowers, we have implemented recruitment initiatives at our bakeries to attract and retain ex-offenders.

In addition, Flowers is a long-time supporter of causes that support U.S. veterans and their families. Presently, Flowers employs more than 550 veterans.

For current Flowers team members, the company offers competitive wages, benefits, and training opportunities, while also promoting a safe and healthy workplace. The company provides its employees with resources to enhance their skills and careers, including:

- Elevating the long-term impact of learning and development in the Flowers organization by investing in a new Learning Management System in Fiscal 2022.
- Providing a range of formal and informal learning programs, which are designed to help employees continuously grow throughout their careers. Programs include Skillsoft online learning and a Mentor Up Mentoring Program which are both available at our bakeries.
- Offering a variety of programs that contribute to our leadership, training and development goals, including internal programs such as the “Flowers Front-Line Leadership Program,” “Lead Now” for leaders at all levels, and “Leading The Flowers Way” for our high potential leaders.
- Encouraging employees to discuss their professional development during annual performance reviews with their supervisors.
- Offering Career Conversations training for supervisory employees to discuss career pathing and employee development.

To foster a greater culture of inclusion, in Fiscal 2021, the entire Flowers senior leadership team participated in unconscious bias training. In Fiscal 2022, Flowers intends to continue its development of diversity, equity, and inclusion (DE&I) training for its workforce. The company’s board of directors (the “Board” or “Board of Directors”) receives regular updates from management on our inclusion and diversity efforts. We are currently developing a standard set of metrics to be included in these updates to the Board to evaluate our progress on these efforts. These metrics could include statistics pertaining to retention, attrition, and promotion and statistics on DEI trainings administered, among others.

Additionally, we regularly conduct anonymous surveys to capture feedback from our team members on a variety of topics, including, but not limited to, confidence in company leadership, competitiveness of our compensation and benefits package, career growth opportunities and how we can make our company an employer of choice. The results are shared with our team members and reviewed by senior leadership, who seek to analyze areas of opportunity and prioritize actions and activities in response to the feedback to drive meaningful change in our overall employee experience. As an example, our leadership team approved the implementation of a self-managed time-off policy for those at the director and above level as a result of survey feedback.

Total Rewards

We have a demonstrated history of investing in our workforce by providing competitive wages and benefits. Our benefits package includes:

- comprehensive health insurance coverage to employees working 30 hours or more each week;
- parental leave to all new parents for birth, adoption or foster placement;
- short-term disability to provide wage protection for up to six months;
- a tuition reimbursement program; and
- a 401(k) plan with generous company match.

We believe that because employees drive our success, they should share in that success. In addition to competitive wages and benefits, when annual company goals are met, eligible team members at all levels are rewarded with a bonus. Furthermore, in recognition and support of our frontline workers, we paid a total of $5.2 million and $12.3 million in appreciation bonuses to eligible hourly and non-exempt employees, leased labor, and contract workers in Fiscal 2021 and 2020, respectively. These appreciation bonuses are in addition to the company's annual performance-based cash incentive plan, in which all Flowers employees participate.

Environmental, Social and Governance Objectives

We are developing a process to integrate environmental, social and governance objectives into our decision-making to deliver long-term value. In doing so, we intend to consider guidance by our stakeholders and third-party frameworks, including the Sustainability Accounting Standards Board (SASB). To learn more about our sustainability goals, programs, and initiatives, you can access the social responsibility section of our website at https://www.flowersfoods.com/company/social-responsibility, which includes a link to our latest Sustainability Report.

Sustainability is core to our strategy and how we connect with consumers and grow our company. Our leading brands and delicious bakery foods are made with a commitment to operating efficiently, reducing waste, and sourcing ingredients responsibly.

As part of that strategy, we recognize our responsibility to uphold the company's founding values, which for more than 100 years, have centered on working ethically, responsibly, and with integrity. We also look for ways to make a positive difference at work and in our communities. By collaborating with stakeholders, including team members, business partners, suppliers, and customers, we are working to become a more sustainable company.

Other Available Information

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

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statement for the annual shareholders' meeting, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with the SEC. You can learn more about us by reviewing our SEC filings on our website at www.flowersfoods.com in the "REPORTS & FILINGS" section of the "INVESTORS" tab. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information about SEC registrants, including the company. Except as otherwise expressly set forth herein, the information contained on our website is neither included nor incorporated by reference herein.

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

- Finance Committee Charter
- Audit Committee Charter
- Nominating/Corporate Governance Committee Charter
- Compensation Committee Charter
- Flowers Foods, Inc. Employee Code of Conduct
- Code of Business Conduct and Ethics for Officers and Members of the Board of Directors
- Disclosure Policy
- Stock Ownership Guidelines
- Corporate Governance Guidelines

Item 1A. Risk Factors

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

Operational Risks

The extent to which the outbreak of the novel strain of coronavirus ("COVID-19") and measures taken in response thereto, including any new and emerging variants of the virus and the efficacy and distribution of vaccines, may impact our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict.

COVID-19 has spread throughout the world, including the U.S., and has resulted in governmental and other regulatory authorities throughout the U.S. implementing numerous measures to try to contain the virus and any variants of the virus, such as travel bans and restrictions, quarantines, shelter-in-place orders, business limitations, and shutdowns. These measures have impacted and may further impact the consumer, our workforce and operations, as well as the workforce, operations and financial prospects of our customers, vendors and suppliers. There is considerable uncertainty regarding such measures and potential future measures, such as restrictions on our access to our manufacturing facilities or on our support operations or workforce, or similar limitations for our customers, vendors and suppliers. The spread of COVID-19 has caused us to modify our business practices (including temporary bakery closures and restricting production at certain bakeries, restricting employee travel, developing social distancing plans for our employees, and cancelling physical participation in meetings, events and conferences), and we may take further actions as may be required by governmental and other regulatory authorities or as we determine are in the best interests of our employees, customers, vendors and suppliers. We can provide no assurance that such measures will be sufficient to mitigate the risks posed by the virus or will otherwise be satisfactory to governmental authorities.

COVID-19 has had, and will continue to have, a widespread and broad-reaching effect on the economy and our business. Some of the impacts our business has experienced, is experiencing or may experience as a result of COVID-19 include, but are not limited to, the following:

- We experienced a favorable shift in sales mix to our branded retail products due to the change in consumer buying patterns as a result of COVID-19 during Fiscal 2021 and 2020, which positively impacted our business operations, including our sales, operating income and cash flows;
- Many of our foodservice customers have periodically closed or restricted operations, which has adversely impacted our revenues from these customers, and has impacted, and could continue to impact, our ability to collect payment from these customers;
- Consumer fears about contracting the disease have altered preferences and spending habits, including significant increases in purchases of fresh and frozen breads during the pendency of quarantines, shelter-in-place orders and other

shutdowns; and these trends have moderated in recent periods, which could negatively affect our performance in future periods as compared to prior periods if consumers were to purchase fewer products from us;

- We have experienced, and may experience in the future, temporary facility closures or partial shutdowns in response to government mandates in certain jurisdictions in which we operate and in response to positive diagnoses for COVID-19 in certain facilities for the safety of our employees;
- Our distribution networks, including our DSD distribution system and our warehouse delivery system, where we manage our inventory, or the operations of our logistics and other service providers may be disrupted, temporarily closed or experience worker shortages;
- Disruptions to our suppliers that supply our ingredients, packaging, and other materials necessary to produce, distribute, and sell our products may affect the ability of our suppliers to fulfill their obligations to us and may cause disruptions to our operations; and
- We also implemented a work from home policy for many of our corporate employees, which may negatively impact productivity and cause other disruptions to our business.

The extent to which the spread of COVID-19 impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak and the emergence of any new or worsening variants, its severity, the actions to contain the virus or treat its impact, including the distribution and efficacy of vaccines, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of COVID-19's global economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future. Any of these events could exacerbate the other risks and uncertainties described herein, or in other reports filed with the SEC from time to time, and could materially adversely affect our business, results of operations and financial condition.

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

The willingness of our customers and consumers to purchase our products may depend in part on economic conditions. Worsening economic conditions or future challenges to economic growth could have a negative impact on consumer demand, which could adversely affect our business. Deterioration of national and global economic conditions could cause consumers to shift purchases to more generic, lower-priced, or other value offerings, or consumers may forego certain purchases altogether during economic downturns and could result in decreased demand in the foodservice business. This economic uncertainty may increase pressure to reduce the prices of some of our products, limit our ability to increase or maintain prices, and reduce sales of higher margin products or shift our product mix to low-margin products.

In addition, changes in tax or interest rates, whether due to recession, efforts to combat inflation, financial and credit market disruptions or other reasons, could negatively impact us.

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

A material negative change in our relationship with the independent distributor partners could negatively affect our business. Such changes could result from litigation or one or more adverse rulings by courts or regulatory or governmental bodies in any of the jurisdictions in which we operate regarding our independent distributorship model, including actions or decisions that could affect the independent contractor classifications of the independent distributor partners, or an adverse judgment against the company for actions taken by the independent distributor partners. In addition, these changes could result from regulatory developments based on the manner in which the U.S. Department of Labor applies the Fair Labor Standards Act. Any of these developments could materially and negatively affect our financial condition, results of operations and cash flows.

Labor shortages and increased turnover or increases in employee and employee-related costs could have adverse effects on our profitability.

We have recently experienced labor shortages at some of our bakeries. A number of factors may adversely affect the labor force available to us, including high employment levels, federal unemployment subsidies, including unemployment benefits offered in response to the COVID-19 pandemic, and other government regulations, which include laws and regulations related to workers' health and safety, wage and hour practices, and immigration. A labor shortage or increased turnover rates within our employee base could lead to increased costs, such as increased overtime to meet demand and increased wage rates to attract and retain employees, and could negatively affect our ability to efficiently operate our bakeries and bread lines or otherwise operate at full capacity. An overall labor shortage, lack of skilled labor, increased turnover or labor inflation could have a material adverse impact on the company's operations, results of operations, liquidity or cash flows.

Additionally, health care, workers' compensation, postretirement welfare, and pension costs are increasing and will likely continue to do so. Any substantial increase in these costs may have an adverse impact on our profitability. The company records the liabilities related to its benefit plans based on actuarial valuations, which include key assumptions determined by management. Material changes in benefit plan liabilities may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by various factors, such as changes in the number of plan participants, changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plan, and other factors. In addition, legislation or regulations involving labor and employment and employee benefit plans (including employee health care benefits and costs) may impact our operational results.

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

We rely on the success of our well-recognized brand names and we intend to maintain our strong brand recognition by continuing to devote resources to advertising, marketing and other brand building efforts. Brand value could diminish significantly due to several factors, including consumer perception that we have acted in an irresponsible manner, adverse publicity about our products (whether or not valid), our failure to maintain the quality of our products, the failure of our products to deliver consistently positive consumer experiences, or the products becoming unavailable to consumers. In addition, failure to comply with local or other laws and regulations could also hurt our reputation. Our marketing investments may not prove successful in maintaining or increasing our market share. If we are not able to successfully maintain our brand recognition or were to suffer damage to our reputation or loss of consumer confidence in our products for any of these reasons, our revenues and profitability could be adversely affected.

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

We have several large customers that account for a significant portion of sales, and the loss of one of our large customers could adversely affect our financial condition and results of operations. Our top ten customers accounted for 53.7% of sales during Fiscal 2021. Our largest customer, Walmart/Sam's Club, accounted for 21.2% of sales during this period. These customers do not typically enter long-term sales contracts, and instead make purchase decisions based on a combination of price, product quality, consumer demand, and customer service performance. At any time, they may use more of their shelf space, including space currently used for our products, for store branded products or for products from other suppliers. Additionally, our customers may face financial or other difficulties that may impact their operations and their purchases from us. Disputes with significant suppliers could also adversely affect our ability to supply products to our customers. If our sales to one or more of these customers are reduced, this reduction may adversely affect our business, financial condition or results of operations.

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

We employ various operating strategies to maintain our position as one of the nation's leading producers and marketers of bakery products available to customers through multiple channels of distribution. In particular, we initiated under Project Centennial, 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. Our focus on our long-term goals of being consumer-focused and committed to growing our most profitable brands is dependent on our success in achieving our strategic priorities: (i) develop team; (ii) brands focus; (iii) prioritize margins; and (iv) smart M&A activity. These and related demands on our resources may divert the organization's attention from other business issues. Our success is partly dependent upon properly executing, and realizing cost savings or other benefits from, these often-complex initiatives. Any failure to implement our initiatives could adversely affect our ability to grow margins. If we are unsuccessful in implementing or executing one or more of our business strategies, our business could be adversely affected.

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

From time to time, the company undertakes acquisitions or divestitures. The success of any acquisition or divestiture depends on the company's ability to identify opportunities that help the company meet its strategic objectives, consummate a transaction on favorable contractual terms, and achieve expected returns and other financial benefits.

Acquisitions, including future acquisitions, require us to efficiently integrate the acquired business or businesses, which involves a significant degree of difficulty, including the following:

- integrating the operations and business cultures of the acquired businesses while carrying on the ongoing operations of the businesses we operated prior to the acquisitions;
- managing a significantly larger company than before consummation of the acquisitions;
- the possibility of faulty assumptions underlying our expectations regarding the prospects of the acquired businesses;

- coordinating a greater number of diverse businesses and businesses located in a greater number of geographic locations;
- attracting and retaining the necessary personnel associated with the acquisitions;
- creating uniform standards, controls, procedures, policies and information systems and controlling the costs associated with such matters; and
- expectations about the performance of acquired trademarks and brands and the fair value of such trademarks and brands.

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

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

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

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

The third-party vendor management processes may not be appropriately designed to reduce risks related to the delivery of goods, supplies and services.

As part of a concerted effort to achieve cost savings and efficiencies, we have entered into agreements with third-party vendors for the delivery of goods, supplies and services, including IT services. If we do not select quality vendors, appropriately review vendor contracts and monitor these vendors' performance (including their ability to protect our customer, consumer or other confidential data), or if any of these third-parties do not perform according to the terms of the agreements, we may not be able to achieve the expected cost savings, we may have to incur additional costs to correct errors made by such third-party vendors or our reputation could be harmed by any failure to perform.

Technology Risks

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

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

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

We may experience difficulties in designing and implementing the upgrade of our ERP system.

We are in the midst of implementing an upgrade to our ERP system to a more robust platform. The upgrade of the ERP system will be designed to accurately maintain our financial records, enhance our operational functionality and provide timely information to our management team related to the operations of the business. The design and implementation of the upgrade to the ERP system requires an investment of significant personnel and financial resources, including substantial expenditures for outside consultants, system hardware and software in addition to other expenses in connection with the transformation of our financial and operating processes. We may not be able to implement the ERP system upgrade successfully without experiencing delays, increased costs and other difficulties, including potential design defects, miscalculations, testing requirements, and the diversion of management's attention from day-to-day business operations. If we are unable to implement the ERP system upgrade as planned, the effectiveness of our internal control over financial reporting could be adversely affected, our ability to assess those controls adequately could be delayed, and our financial condition, results of operations and cash flows could be negatively impacted.

Industry Risks

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

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

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

Inflation may adversely affect us by increasing our costs of production, materials, and labor. In an inflationary environment, such as the current economic environment, depending on the market conditions of the baking industry and the expected raising of interest rate by the United States Federal Reserve, we may be unable to raise the prices of our products enough to keep up with the rate of inflation, which would reduce our profit margins, and continued inflationary pressures could impact our business, financial condition, and results of operations.

Competition could adversely impact revenues and profitability.

The U.S. bakery industry is highly competitive. Our principal competitors in these categories all have substantial financial, marketing, and other resources. In most product categories, we compete not only with other widely advertised branded products, but also with store branded products that are generally sold at lower prices. Competition is based on product availability, product quality, price, effective promotions, and the ability to target changing consumer preferences. Substantial growth in e-commerce has encouraged the entry of new competitors and business models, intensifying competition by simplifying distribution and lowering barriers to entry. The expanding presence of e-commerce retailers has impacted, and may continue to impact, consumer preferences and market dynamics, which in turn may negatively affect our sales or profits. We experience price pressure from time to time due to competitors' promotional activity and other pricing efforts. This pricing pressure is particularly strong during adverse economic periods and periods of high inflation. Increased competition could result in reduced sales, margins, profits and market share.

Product removals, damaged product or safety concerns could adversely impact our results of operations.

We may be required to recall certain of our products should they be mislabeled, contaminated, spoiled, tampered with or damaged. We may become involved in lawsuits and legal proceedings alleging that the consumption of any of our products causes or caused injury, illness or death. Any such product removal, damaged product or an adverse result in any litigation related to such a product removal or damaged product could have a material adverse effect on our operating and financial results in future periods, depending on the costs of the product removal from the market, the destruction of product inventory, diversion of management time and attention, contractual and other claims made by customers that we supply, loss of key customers, competitive reaction and consumer attitudes. Even if a product liability, consumer fraud or other claim is unsuccessful or without merit, the negative publicity surrounding such assertions regarding our products could adversely affect our reputation and brand image. We also could be adversely affected if our customers or consumers in our principal markets lose confidence in the safety and quality of our products.

During fiscal years 2018 through 2021, we have been required, and may be required in future periods, to remove certain of our products from the market should they be mislabeled, contaminated, spoiled, tampered with or damaged, including as a result of inferior ingredients provided by any of our suppliers.

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

We expect consolidations among our retail and foodservice customers to continue. If this trend continues and our retail and foodservice customers continue to grow larger due to consolidation in their respective industries, they may demand lower pricing and increased promotional programs. In addition, these pressures may restrict our ability to increase prices, including in response to commodity and other cost increases. Our margins and profits could decrease if a reduction in prices or increased costs are not counterbalanced with increased sales volume.

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

Our success depends in part on our ability to respond to current market trends and to anticipate the tastes and dietary habits of consumers, including concerns of consumers regarding health and wellness, obesity, product attributes, ingredients, and packaging. Similarly, demand for our products could be negatively affected by consumer concerns or perceptions regarding the health effects of specific ingredients such as, but not limited to, sodium, trans fats, sugar, processed wheat, or other product ingredients or attributes. Introduction of new products and product extensions requires significant development and marketing investment. If we fail to anticipate, identify, or react to changes in consumer preferences, or if we fail to introduce new and improved products on a timely basis, we could experience reduced demand for our products, which could cause our sales, profitability, and our operating results to suffer.

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

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

Legal and Regulatory Risks

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

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

In addition, our operations are subject to extensive and increasingly stringent regulations administered by the Environmental Protection Agency related to the discharge of materials into the environment and the handling and disposition of wastes. Failure to comply with these regulations can have serious consequences, including civil and administrative penalties and negative publicity. Changes in applicable laws or regulations or evolving interpretations thereof, including increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change, may result in increased compliance costs, capital expenditures, and other financial obligations for us, which could affect our profitability or impede the production or distribution of our products, and affect our sales.

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

Climate change, or legal, regulatory, or market measures to address climate change, may negatively affect our business and operations.

There is growing concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns, and the frequency and severity of extreme weather and natural disasters. In the event that such climate change has a negative effect on agricultural productivity, we may be subject to decreased availability or less favorable pricing for certain commodities that are necessary for our products, such as corn and wheat. Adverse weather conditions and natural disasters can reduce crop size and crop quality, which in turn could reduce our supplies of raw materials, lower recoveries of usable raw materials, increase the prices of our raw materials, increase our cost of transporting and storing raw materials, or disrupt our production schedules.

We may also be subjected to decreased availability or less favorable pricing for water as a result of climate change, which could impact our production and distribution operations. In addition, natural disasters and extreme weather conditions may disrupt the productivity of our facilities or the operation of our supply chain. The increasing concern over climate change also may result in more regional, federal, and/or global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases. In the event that such regulation is enacted and is more aggressive than the sustainability measures that we are currently undertaking to monitor our emissions and improve our energy efficiency, we may experience significant increases in our costs of operation and delivery. In particular, increasing regulation of fuel emissions could substantially increase the distribution and supply chain costs associated with our products. As a result, climate change could negatively affect our business and operations.

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

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

Executive Offices

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

Information about our Executive Officers

The following table sets forth certain information regarding the persons who currently serve as the executive officers of Flowers Foods.

EXECUTIVE OFFICERS

Name, Age and Office	Business Experience
A. Ryals McMullian Age 52 President and Chief Executive Officer	Mr. McMullian was elected CEO in May 2019. Previously, he served as COO from July 2018 until May 2019. Mr. McMullian served as chief strategy officer from May 2017 to July 2018, and as vice president of mergers and acquisitions and deputy general counsel from 2015 until 2017. Mr. McMullian served as vice president and associate general counsel from 2011 until 2015 and as associate general counsel from 2003, when he joined the company, until 2011.
R. Steve Kinsey Age 61 Chief Financial Officer and Chief Accounting Officer	Mr. Kinsey was named chief financial officer ("CFO") and chief accounting officer ("CAO") in April 2020. Previously, he served as executive vice president and CFO and chief administrative officer from May 2017 to April 2020. Mr. Kinsey served as executive vice president and CFO from 2008 until 2017, and as senior vice president and CFO from 2007 to 2008. Prior to those appointments, Mr. Kinsey served in various accounting roles since joining the company in 1989.
Bradley K. Alexander Age 63 Chief Operating Officer	Mr. Alexander was named COO in May 2019. Previously, he served as president of the Fresh Packaged Bread Business Unit from May 2017 to May 2019, as executive vice president and COO of Flowers Foods from July 2014 to May 2017, and as president of Flowers Bakeries from July 2008 to July 2014. Mr. Alexander joined the company in 1981.
Robert L. Benton, Jr. Age 64 Executive Vice President of Network Optimization	Mr. Benton was named executive vice president of network optimization in November 2019. He previously served as chief supply chain officer from May 2017 until November 2019. Mr. Benton served as senior vice president and chief manufacturing officer from January 2015 to May 2017 and as senior vice president of manufacturing and operations support from March 2011 until January 2015. Prior to that, he held various manufacturing positions since joining the company in 1980.
Mark Chaffin Age 51 Chief Information Officer	Mr. Chaffin was named chief information officer ("CIO") in February 2020 after serving four months in an interim capacity. Prior to joining Flowers, Mr. Chaffin was a partner in the Southeast practice of Fortium Partners, a provider of technology leadership services, from 2019 until joining Flowers. He also served as CIO at sgsco, a global package and brand design and marketing company, from 2015 to 2019 and as CIO for Acosta Sales and Marketing from 2007 to 2015.
H. Mark Courtney Age 61 Chief Brand Officer	Mr. Courtney was named chief brand officer in July 2020. He previously served as president of the Fresh Packaged Bread Business Unit from May 2019 to July 2020, senior vice president of retail accounts from May 2017 to May 2019, and senior vice president of sales from June 2008 to May 2017. Prior to that, Mr. Courtney served in various sales positions since joining the company in 1983.
Debo Mukherjee Age 54 Chief Marketing Officer	Mr. Mukherjee joined Flowers as chief marketing officer in October 2017. Before joining Flowers, Mr. Mukherjee was founder and owner of Intacta Consulting Group, LLC, a marketing consulting firm, from 2015 to 2019. Prior to that, he served as CEO of Redco Foods, Inc. from 2011 to 2015. He also held marketing roles at Mars Inc., Unilever, H.J. Heinz Co. and The Hershey Company.
David M. Roach Age 52 President, Cake Operations	Mr. Roach was named president of cake operations in July 2020. He previously served as president of the Snacking/Specialty Business Unit from May 2017 to July 2020 and as senior vice president of organics from September 2015 until May 2017. Mr. Roach served in various sales and management positions since joining the company in 1992.
Tonja Taylor Age 62 Chief Human Resources Officer	Ms. Taylor was named chief human resources officer in May 2017. She served as senior vice president of human resources from September 2013 until May 2017 and as vice president of human resources from June 2008 until September 2013. Prior to these appointments, Ms. Taylor held various human resources positions since joining the company in 1999.
Stephanie B. Tillman Age 51 Chief Legal Counsel	Ms. Tillman was named chief legal counsel effective January 2020. Previously, she served as vice president, chief compliance officer, and deputy general counsel from April 2011 to January 2020. Prior to that, Ms. Tillman served in various roles in the legal department since joining the company in 1995.
Heeth Varnedoe IV	Mr. Varnedoe was named chief transformation officer in December 2020. Previously, he

Name, Age and Office	Business Experience
Age 55 Chief Transformation Officer	served as senior vice president of DSD Regions/Sales from 2017 until 2020, as president of Flowers' Phoenix, Arizona bakery from 2016 to 2017, as vice president of national accounts from 2013 to 2016, and as director of DSD cake sales in 2012. Mr. Varnedoe joined Flowers in 1990 and held a number of positions before leaving the company in 2000 to pursue other business interests. He rejoined Flowers in 2012.
D. Keith Wheeler Age 58 Chief Sales Officer	Mr. Wheeler was named chief sales officer in May 2017. Previously, he served as president of Flowers Bakeries from July 2014 until May 2017. Prior to that, Mr. Wheeler served in various leadership roles, including regional senior vice president, regional controller, and bakery president. He joined the company in 1988.

Item 1B. *Unresolved Staff Comments.*

None

Item 2. *Properties*

The company currently operates 46 bakeries, of which 44 are owned and two are leased. We believe our properties are in good condition, well maintained, and sufficient for our present operations. Our production plant locations are:

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

In Thomasville, Georgia, the company leases properties that house shared services functions and our IT group and owns several properties for our corporate offices. The company also houses an additional shared services center at its Phoenix, Arizona bakery.

Item 3. *Legal Proceedings*

For a description of all material pending legal proceedings, See Note 22, *Commitments and Contingencies*, of Notes to Consolidated Financial Statements of this Form 10-K.

Item 4. *Mine Safety Disclosures*

Not Applicable

PART II

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

Market Information

Shares of the company's common stock are quoted on the New York Stock Exchange (the "NYSE") under the symbol "FLO."

Holders

As of February 17, 2022, there were approximately 3,307 holders of record of the company's common stock.

Dividends

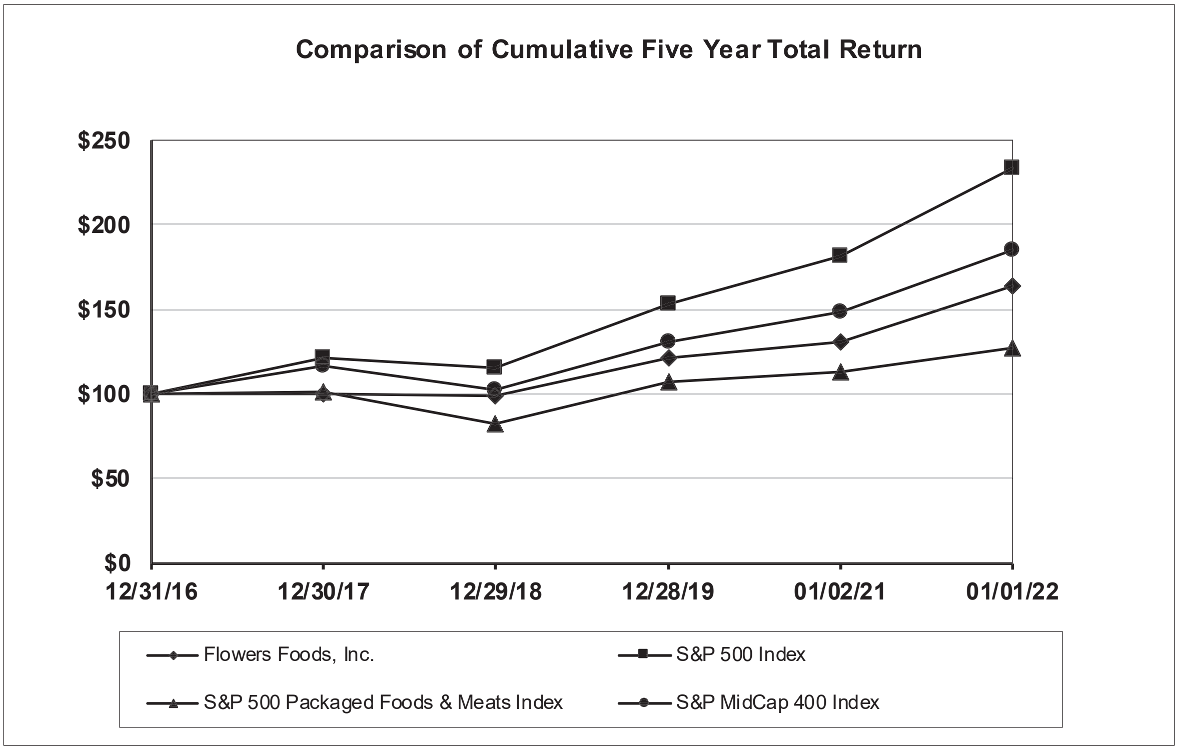
The payment of dividends is subject to the discretion of the company's Board. The Board bases its decisions regarding dividends on, among other things, general business conditions, our financial results, contractual, legal and regulatory restrictions regarding dividend payments and any other factors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

Purchases of Equity Securities by the Issuer

The company did not purchase any shares of its common stock during the fourth quarter of Fiscal 2021.

Stock Performance Graph

The chart below is a comparison of the cumulative total return (assuming the reinvestment of all dividends paid) of our common stock, Standard & Poor's 500 Index, Standard & Poor's 500 Packaged Foods and Meats Index, and Standard & Poor's MidCap 400 Index for the period December 31, 2016 through January 1, 2022 the last day of our 2021 fiscal year.



	December 31, 2016	December 30, 2017	December 29, 2018	December 28, 2019	January 2, 2021	January 1, 2022
FLOWERS FOODS INC	100.00	100.22	98.33	120.94	130.29	163.68
S&P 500 INDEX	100.00	121.83	115.49	153.58	181.35	233.41
S&P 500 PACKAGED FOODS & MEATS INDEX	100.00	101.35	82.14	107.52	112.54	127.26
S&P MIDCAP 400 INDEX	100.00	116.24	102.31	130.36	148.26	184.97

Companies in the S&P 500 Index, the S&P 500 Packaged Foods and Meats Index, and the S&P MidCap 400 Index are weighted by market capitalization and indexed to $100 at December 31, 2016. Flowers Foods' share price is also indexed to $100 at December 31, 2016.

Item 6. [Reserved]

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

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

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

- *Executive overview* — provides a summary of our operating performance and cash flows, industry trends, and our strategic initiatives.
- *Critical accounting estimates* — describes the accounting areas where management makes critical estimates to report our financial condition and results of operations.
- *Results of operations* — an analysis of the company's consolidated results of operations for Fiscal 2021 compared to Fiscal 2020 as presented in the Consolidated Financial Statements. Refer to the Annual Report on Form 10-K for the fiscal year ended January 2, 2021 for a discussion of the results of operations for Fiscal 2020 compared to Fiscal 2019.
- *Liquidity, capital resources and financial position* — an analysis of cash flow, contractual obligations, and certain other matters affecting the company's financial position.

MATTERS AFFECTING COMPARABILITY

Detailed below are expense (recovery) items affecting comparability that will provide additional context while reading this discussion:

	Fiscal 2021 52 weeks	Fiscal 2020 53 weeks	Footnote Disclosure
	(Amounts in thousands)		
Business process improvement consulting costs	$ 31,293	$ —	Note 2
Project Centennial consulting costs	—	15,548	Note 5
ERP Road Mapping consulting costs	—	4,363	Note 2
Restructuring and related impairment charges	—	35,483	Note 5
Loss on inferior ingredients	944	107	Note 4
Non-restructuring lease termination gain	(2,644)	(4,066)	Note 13, 2
Pension plan settlement and curtailment loss	403	108,757	Note 20
Acquisition consideration adjustment	3,400	—	Note 12
Legal settlements and related costs	23,089	7,250	Note 22
Loss on extinguishment of debt	16,149	—	Note 14
Other pension plan termination costs	—	133	
Multi-employer pension plan withdrawal costs	3,300	—	Note 20
	$ 75,934	$ 167,575	

Business process improvement consulting costs related to the transformation strategy initiatives. In the second half of Fiscal 2020, we launched initiatives to transform how we operate our business, which includes upgrading our information system to a more robust platform, as well as investments in e-commerce, autonomous planning, and our "bakery of the future" initiative. These transformation strategy initiatives are further discussed in Item 1., *Business,* of this Form 10-K. In Fiscal 2022, we currently expect costs for the upgrade of our ERP system (a portion of which may be expensed as incurred, capitalized, recognized as a cloud computing arrangement, or recognized as a prepaid service contract) to be approximately $85 million to $95 million. Costs related to our digital strategy initiatives are anticipated in Fiscal 2022, but these amounts cannot currently be estimated. The expensed portion of the consulting costs related to both the ERP upgrade and digital strategy initiatives incurred in Fiscal 2021 was $31.3 million and is reflected in the selling, distribution, and administrative expenses line item of the Consolidated Statements of Income. Initial road mapping costs for these initiatives were incurred in Fiscal 2020 and are included in the "ERP Road Mapping consulting costs" in the table above.

Project Centennial consulting costs. During the second quarter of Fiscal 2016, we launched Project Centennial, an enterprise-wide business and operational review. Key initiatives of the project were to enhance revenue growth, improve efficiencies, streamline operations, and make investments to strengthen our competitive position and improve margins over the long-term. The project was completed at the end of Fiscal 2020. Consulting costs associated with the project in Fiscal 2020 were $15.5 million and primarily related to further refining our organizational structure, portfolio and supply chain optimization initiatives, and improving our cake operations. These consulting costs are reflected in the selling, distribution and administrative expenses line item of the Consolidated Statements of Income.

Consulting costs for planning the upgrade of our ERP platform and the broader digital strategy initiative. As discussed above and in Item 1., *Business,* of this Form 10-K, we began planning for the upgrade of our ERP platform and other system related enhancements (the "ERP road mapping") during the third quarter of Fiscal 2020. We incurred consulting costs associated with these activities of $4.4 million and these costs are reflected in the selling, distribution and administrative expenses line item of the Consolidated Statements of Income. We completed the initial road mapping activities in the fourth quarter of Fiscal 2020 and transitioned to the design phase of the project.

Restructuring and related impairment charges associated with Project Centennial. The following table details charges recorded in Fiscal 2020 (amounts in thousands):

	Fiscal 2020
Employee termination benefits and other cash charges	$ 7,779
Property, plant, equipment and spare parts impairments	7,110
Lease termination and lease impairment charges	13,474
Brand rationalization impairments	7,120
	$ 35,483

In Fiscal 2020, the company reevaluated its organizational structure in an effort to increase its focus on brand growth and product innovation and to improve underperforming bakeries. The organizational structure changes resulted in employee termination benefits charges in Fiscal 2020 related to a voluntary employee separation plan (the "VSIP") of $2.6 million and an involuntary reduction-in-force plan of $5.3 million. The VSIP and reduction-in-force plans together eliminated approximately 250 positions across different departments and job levels and all remaining payments related to the plans were paid in early Fiscal 2021.

During Fiscal 2020, the company sold three closed bakeries that were included in assets held for sale and certain idle equipment at other bakeries, resulting in the recognition of $5.7 million of impairment charges. Additionally, the company recognized property, plant, and equipment impairment charges of $0.6 million for manufacturing line and distribution depot closures and an office building the company decided to sell, and $0.7 million for spare parts related to equipment the company no longer intended to use.

In order to optimize our distribution network, we vacated certain distribution depots during the third quarter of Fiscal 2020, some of which are owned and others that are leased. These actions resulted in the recognition of lease termination charges and lease impairment charges totaling $13.5 million.

Additionally, in order to optimize sales and production of our organic products, the company decided to cease using the *Alpine Valley* brand, a finite-lived trademark, resulting in a $4.6 million impairment charge in the second quarter of Fiscal 2020. The company decided to cease using one of its regional brands and recognized a $1.3 million impairment charge in the fourth quarter of Fiscal 2020. Ingredient and packaging impairments of $1.2 million were also recognized as a result of brand rationalization initiatives.

Loss on inferior ingredients. In the fourth quarter of Fiscal 2021, the company issued a voluntary recall on certain *Tastykake* multi-pack cupcakes sold in eight states and certain *Tastykake* Krimpets distributed to retail customers throughout the U.S. due to the potential presence of tiny fragments of metal mesh wire. The recall was initiated following notification by a vendor of the possible contamination in a supplied ingredient. The company incurred costs of $1.8 million related to the recall in Fiscal 2021 and these costs are recorded in our Consolidated Statements of Income. The company is seeking recovery of these losses.

In Fiscal 2020, we incurred costs of $1.0 million related to receiving inferior ingredients used in the production of certain of our gluten-free products. In the first quarter of Fiscal 2021, we incurred an additional $0.1 million of costs related to the inferior gluten-free ingredients and in the third quarter of Fiscal 2021, we received reimbursements of approximately $1.0 million for these previously incurred costs. These costs and reimbursements are recorded in the loss on inferior ingredients line item of the Consolidated Statements of Income.

In Fiscal 2020, in addition to the costs related to inferior gluten-free ingredients, we recognized an adjustment of $0.2 million related to previously recorded inferior yeast costs and received a $1.2 million reimbursement for the direct costs associated with receiving inferior yeast in a prior year. These direct costs and reimbursements of direct costs are included in our Consolidated Income Statements. We also received a reimbursement of $3.9 million for indirect losses associated with receiving inferior yeast in a prior year and this amount is included in the selling, distribution, and administrative expenses line item of the Consolidated Statements of Income.

Non-restructuring lease termination gain. In Fiscal 2021, the company purchased twenty-seven warehouses that were included in the company's operating leased assets. Two of the purchased properties were fully impaired in Fiscal 2020, resulting in the recognition of a $2.6 million gain upon completion of the purchase of these assets and this amount is included in the selling, distribution, and administrative expenses line item of the Consolidated Statements of Income.

In Fiscal 2020, due to a change in the contractual terms with a transportation entity that transports a significant portion of our fresh bakery products to allow for substitution of assets, among other changes to the terms, a reassessment of the embedded lease accounting treatment was triggered. Based our analysis, we determined the contracts associated with the transportation entity no longer qualify for embedded lease treatment and, in unwinding these leases, the company recognized a noncash gain of $4.1 million in the selling, distribution and administrative expenses line item of the Consolidated Statements of Income.

Pension plan settlement and curtailment loss. In the company-sponsored defined benefit pension plan for union employees ("Plan No. 2"), retired and terminated vested pension plan participants not yet receiving their benefit payments have the option to elect to receive their benefit as a single lump sum payment. In the fourth quarter of Fiscal 2021, a settlement charge of $0.4 million was triggered as a result of lump sum distributions paid in Fiscal 2021.

On September 28, 2018, the Board approved a resolution to terminate the Flowers Foods, Inc. Retirement Plan No. 1 ("Plan No. 1"), effective December 31, 2018. In the first quarter of Fiscal 2020, the company distributed a portion of the pension plan assets to participants as lump sum payments and transferred the remaining obligations and assets to an insurance company in the form of a nonparticipating group annuity contract. No cash contributions were required in Fiscal 2020 to support this transaction. In Fiscal 2020, the company recognized $108.8 million of non-cash pension termination charges, comprised of a settlement charge of $104.5 million and a curtailment loss of $4.3 million, and an additional $0.1 million of cash charges for other pension termination charges in our Consolidated Statements of Income.

Acquisition consideration adjustment. In connection with an acquisition completed in Fiscal 2012, the company agreed to make the selling shareholders whole for certain taxes incurred by the stakeholders on the sale. There was recently a tax determination that the selling shareholders owed additional taxes. Unless there is a successful appeal which overturns the determination, the company estimates that it will owe the shareholders approximately $3.4 million, and the Company has recorded this cost in the selling, distribution, and administrative expenses line item of the Consolidated Statements of Income in Fiscal 2021.

Legal settlements and related costs. In Fiscal 2021, we reached an agreement to settle certain distributor-related litigation for a settlement payment, inclusive of plaintiffs' attorney fees, of $16.5 million. The settlement also requires a phased repurchase of approximately 75 distribution rights and the company estimates this cost to be approximately $6.6 million. The terms of the settlement require court approval. In Fiscal 2020, we reached agreements to settle distributor-related litigation in the aggregate amount of $7.3 million, including plaintiffs' attorney fees and the company's FICA obligations. All amounts related to legal settlements and related costs are recorded in the selling, distribution and administrative expenses line item of the Consolidated Statements of Income. At January 1, 2022, $23.1 million of settlements were accrued (inclusive of obligations for repurchase of distribution rights).

Loss on extinguishment of debt. On April 8, 2021, we completed the early redemption of the Company's $400.0 million of 4.375% senior notes due 2022 (the "2022 notes") with proceeds received from the issuance of the Company's $500.0 million of 2.400% senior notes due 2031 (the "2031 notes") on March 9, 2021. We recognized a loss on extinguishment of debt of $16.1 million comprised of a make-whole cash payment of $15.4 million and the write-off of unamortized debt discount and debt issuance costs totaling $0.7 million.

Multi-employer pension plan withdrawal costs. On September 22, 2021, the union participants of the Retail, Wholesale and Department Store Union Fund (the "Fund") at our Birmingham, Alabama plant voted to withdraw from the Fund in the most recent collective bargaining agreement. The withdrawal was effective, and the union participants became eligible to participate in the Flowers Foods, Inc. 401(k) Retirement Savings Plan, on December 1, 2021. This resulted in the recognition of a pension plan withdrawal liability of $3.3 million (including transition payments) in our Consolidated Statements of Income. The transition payments were paid in December 2021 and the withdrawal liability is anticipated to be paid in the first half of Fiscal 2022. While this is our best estimate of the ultimate cost of the withdrawal from this Fund, additional withdrawal liability may be incurred based on the final Fund assessment or in the event of a mass withdrawal as defined by statute, occurring any time within the next three years following our complete withdrawal.

Additional Items Impacting Comparability

Reporting Periods. The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2021 consisted of 52 weeks and Fiscal 2020 consisted of 53 weeks. Fiscal 2022 will consist of 52 weeks.

COVID-19. On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide, which led to adverse impacts on the U.S. and global economies. Due to the drastic change in consumer buying patterns as a result of the COVID-19 pandemic, we experienced a favorable shift in sales mix to our branded retail products as consumers increased at-home consumption of food products resulting in significant growth in income from operations in Fiscal 2021 and 2020 as compared to Fiscal 2019. As shutdowns and capacity restrictions imposed at the onset of the pandemic have eased, our sales volumes have declined in Fiscal 2021 as compared to the prior year, which included the peak period of demand for our branded retail products and an additional week. Improved price/mix in Fiscal 2021 resulting from favorable pricing we have implemented and the continued favorable shift in mix from store branded retail to branded retail sales partially offset the volume declines. For additional details on the impact of the COVID-19 pandemic to our business operations and results of operations, see the "Executive Overview – Impact of COVID-19 on Our Business," "Results of Operations" and "Liquidity and Capital Resources" sections below.

Conversion of our Lynchburg, Virginia bakery to organic production. During Fiscal 2020, we converted our Lynchburg, Virginia bakery to an all-organic production facility. The converted facility has increased production capacity for our *DKB* products, allowing the company to better serve east coast markets with fresher product and reduce distribution costs. We incurred start-up costs related to the conversion of approximately $5.1 million in Fiscal 2020 and these costs are included in materials, supplies, labor and other production costs in our Consolidated Statements of Income. The bakery resumed production at the end of the third quarter of Fiscal 2020.

EXECUTIVE OVERVIEW

We are the second-largest producer and marketer of packaged bakery foods in the U.S. with Fiscal 2021 sales of $4.3 billion. We operate in the highly competitive fresh bakery market. Our product offerings include a wide range of fresh breads, buns, rolls, snack cakes and tortillas, as well as frozen breads and rolls, which we produce at 46 plants in 18 states. Our products are sold under leading brands such as *Nature's Own, Dave's Killer Bread, Canyon Bakehouse, Tastykake, Mrs. Freshley's,* and *Wonder*. See Item 1., *Business,* of this Form 10-K for additional information regarding our customers and brands, business strategies, strengths and core competencies, and competition and risks.

Impact of COVID-19 on Our Business:

The COVID-19 pandemic has significantly impacted our business operations and results of operations during Fiscal 2021 and 2020, as further described under "Results of Operations" and "Liquidity and Capital Resources" below. The resulting dramatic changes in consumer buying patterns has led to a significant rise in demand for our branded retail products due to increases in at-home dining. Sales through our non-retail category, which includes foodservice, restaurant, institutional, vending, thrift stores, and contract manufacturing, declined substantially at the onset of the pandemic in March of Fiscal 2020, but as the pandemic has progressed and mandatory shutdowns and restaurant closures across the U.S. have eased, our non-retail sales have been recovering. Fiscal 2021 sales declined 1.3% mostly due to the additional week in the prior year which negatively impacted Fiscal 2021 sales 1.7%. Although the prior year benefitted from the significant rise in demand for our branded retail products at the beginning of the COVID-19 pandemic, as well as positive shifts in mix throughout the year and the additional week, Fiscal 2021 benefitted from favorable pricing, a continued positive shift in mix from store branded retail to branded retail products, and a partial recovery in non-retail sales. Fiscal 2021 sales remained elevated compared to pre-pandemic levels as we continued to benefit from the positive mix shift to branded retail products during the ongoing pandemic and favorable pricing, partially offset by volume declines.

In recognition and support of our frontline workers, in Fiscal 2021 and 2020, we paid $5.2 million and $12.3 million, respectively, in appreciation bonuses to eligible hourly and non-exempt employees, leased labor, and contract workers. These appreciation bonuses are in addition to the company's annual performance-based cash incentive plan, in which all Flowers employees participate. Although our branded retail sales volumes have moderated as the pandemic has continued, we cannot currently estimate when or if they will return to pre-pandemic levels.

On April 14, 2020, we temporarily ceased production at our Tucker, Georgia bakery and on July 9, 2020, we temporarily ceased production at our Savannah, Georgia bakery. Both closures were due to an increase in the number of confirmed COVID-19 cases at these bakeries and the related increase in number of workers self-quarantining. Production resumed at the Tucker bakery on April 27, 2020 and at the Savannah Bakery on July 17, 2020. Although our other bakeries were able to assist with meeting production needs in these instances, the potential closure of several of our bakeries across the country at the same time – or in close succession – could negatively affect our ability to meet our production requirements, even if the interruption is temporary. While we have had no temporary production interruptions in Fiscal 2021 due to COVID-19, such interruptions are possible due to the uncertainty of the pandemic. Additionally, unforeseen disruptions in other areas of our operations, including but not limited to procurement of raw materials, transport of our products, or recovery by our foodservice customers, could negatively impact our operations, results of operations, cash flows, and liquidity.

We believe we have sufficient liquidity to satisfy our cash needs and we continue to take steps to preserve adequate liquidity during the ongoing pandemic as further discussed in the "Liquidity and Capital Resources" section below. As discussed further in Item 1., *Business*, of this Form 10-K, we are continuing to move forward with the upgrade of our ERP system and other transformation strategy initiatives and do not anticipate the pandemic to materially alter the timing of these initiatives.

We continue to monitor the impact of the ongoing COVID-19 pandemic on our business operations, results of operations, and liquidity. Our operations may continue to experience disruption due to the continued uncertainty caused by the pandemic, including but not limited to additional variants of the COVID-19 virus, new geographic hotspots, changes in the number of COVID-19 cases, the rate of vaccination within the U.S. population and the efficacy of the vaccines, changes in the global and U.S. economic environment, and changes in pandemic safety policies. Additionally, if there is a significant shift in mix from branded retail to store branded retail products, we expect that our results of operations, including our net sales, earnings, and cash flows, could be negatively impacted.

Our main focus throughout the pandemic has been and continues to be the health and safety of our team members and independent distributor partners. From the start of the pandemic, we have followed the guidance of the U.S. Centers for Disease Control and Prevention (CDC), taking a number of recommended steps to safeguard those in our facilities. These steps included, but are not limited to, monitoring the symptoms of everyone entering our facilities, requiring face coverings, maintaining (where possible) social distancing of six feet, conducting enhanced cleaning and sanitizing of common areas and frequently touched surfaces, performing decontamination of work areas and equipment when there is a confirmed or presumptive case of COVID-19 at a facility, and contact tracing. Company-wide bans on non-essential travel and non-essential visitors at all locations were put into place, corporate offices were closed, and office staff were directed to work remotely. In addition, the company issued regular communications about COVID-19 prevention steps. When COVID-19 vaccinations became available, we shared educational information with our team members and encouraged vaccination for those eligible.

We have followed the guidance issued by the CDC and the U.S. Occupational Safety and Health Administration (OSHA) and modified our face mask and wellness screening policies to align with local, state, and workplace safety regulations. We remain vigilant in reporting COVID-19 cases in our facilities and continue to evaluate our pandemic safety measures as the pandemic evolves. The majority of employees in non-production roles continue to work remotely. We intend to implement a work policy in 2022 addressing guidelines for three distinct work personas: full-time remote, full-time in office, or flex, a combination of the two. These plans may be impacted by, among other things, consideration of pandemic safety measures, the rate of vaccinations and the efficacy of the vaccines, the threat of additional COVID-19 variants, and the ability of office staff to work effectively from remote locations. Although the impact of these measures, or any other measures adopted by governmental authorities, on our business and workforce is uncertain, these requirements may result in increased costs and could have an adverse effect on our business, results of operations, and financial condition.

During Fiscal 2021, we experienced labor shortages at some of our bakeries. A number of factors may continue to adversely affect the labor force available to us, including high employment and government regulations. In addition, there also are factors that may negatively affect our ability to efficiently operate our production lines or run at full capacity. These might include, but are not limited to, a labor shortage or increased turnover rates within our workforce that could lead to increased labor costs, including additional overtime to meet demand and higher wage rates to attract and retain workers. An overall labor shortage, lack of skilled labor, increased turnover or labor inflation could have a material adverse impact on the company's operations, results of operations, liquidity, or cash flows.

Summary of Operating Results, Cash Flows and Financial Condition:

Sales decreased 1.3% in Fiscal 2021 compared to Fiscal 2020 mostly due to the additional week in the prior year. Although the prior year benefitted from the significant rise in demand for our branded retail products at the beginning of the COVID-19 pandemic and the additional week, Fiscal 2021 benefitted from positive pricing and a continued positive shift in mix from store branded retail to branded retail products and a partial recovery in non-retail sales.

Income from operations for Fiscal 2021 was $294.9 million compared to $321.5 million in the prior year. The decrease resulted from sales declines, input cost inflation, higher consulting costs and legal settlements, and greater investments in marketing in the current year, partially offset by prior year restructuring and related impairment charges, and higher short-term incentive compensation paid for appreciation bonuses and workforce-related performance-based cash incentive plans in the prior year.

Net income was $206.2 million for Fiscal 2021, an increase of 35.4% as compared to the prior year. The improvement in the current year resulted primarily from the $108.8 million non-cash pension plan settlement and curtailment loss ($81.6 million net of tax) in the prior year in connection with the termination of Plan No. 1, partially offset by the $16.1 million loss on extinguishment of debt ($12.1 million net of tax) recognized in the current year and decreased income from operations year over year.

In Fiscal 2021, we generated net cash flows from operations of $344.6 million, invested $136.0 million in capital expenditures, and purchased a portfolio of leased warehouses for $64.7 million. Additionally, we paid $175.9 million in dividends to our shareholders and decreased our total indebtedness by $81.9 million. On March 9, 2021, we issued the 2031 notes and used the net proceeds from the offering to complete the early redemption of our outstanding 2022 notes and for other debt repayments. Throughout Fiscal 2021, we continued to maintain higher levels of cash on hand compared to pre-pandemic levels in order to ensure future liquidity, although we do not have any presently anticipated need for this additional liquidity. Our cash and cash equivalents balance as of January 1, 2022 was $185.9 million. In Fiscal 2021, we amended senior unsecured revolving credit facility (the "credit facility") and our accounts receivable securitization facility (the "AR facility") to, among other things, extend the maturity dates to July 30, 2026 and September 27, 2023, respectively.

In Fiscal 2020, we generated net cash flows from operations of $454.5 million and invested $97.9 million in capital expenditures. We increased our total indebtedness by $92.5 million and paid $167.3 million in dividends to our shareholders in Fiscal 2020. During the first quarter of Fiscal 2020, we borrowed an additional amount under the credit facility in order to ensure future liquidity in response to the uncertainty caused by the pandemic and cash and cash equivalents at January 2, 2021 were $307.5 million.

CRITICAL ACCOUNTING ESTIMATES

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

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

Critical Accounting Estimate	**Note**
Revenue recognition	—
Derivative financial instruments	10
Long-lived assets	—
Goodwill and other intangible assets	9
Leases	13
Self-insurance reserves	22
Income tax expense and accruals	21
Postretirement plans	20
Stock-based compensation	18
Commitments and contingencies	22

Revenue Recognition. 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. The recognition of costs for promotion programs involves the use of judgment related to performance and redemption estimates. Estimates are made based on historical experience and other factors. Price promotion discount expense is recorded as a reduction to gross sales when the discounted product is sold to the customer.

Derivative Financial Instruments. The company's cost of primary raw materials is highly correlated to certain commodities markets. Raw materials, such as our baking ingredients, experience price fluctuations. If actual market conditions become significantly different than those anticipated, raw material prices could increase significantly, adversely affecting our results of operations. We enter into forward purchase agreements and other derivative financial instruments qualifying for hedge accounting to manage the impact of volatility in raw material prices. The company measures the fair value of its derivative portfolio using fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal market for that asset or liability. When quoted market prices for identical assets or liabilities are not available, the company bases fair value on internally developed models that use current market observable inputs, such as exchange-quoted futures prices and yield curves. Refer to Item 7A., *Quantitative and Qualitative Disclosures About Market Risk,* of this Form 10-K for additional information about our derivative financial instruments, including a sensitivity analysis of the company's potential exposure to commodity price risk.

Valuation of Long-Lived Assets, Goodwill and Other Intangible Assets. The company records an impairment charge to property, plant and equipment, goodwill and intangible assets in accordance with applicable accounting standards when, based on certain indicators of impairment, it believes such assets have experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of these underlying assets could result in losses or an inability to recover the carrying value of the asset that may not be reflected in the asset's current carrying value, thereby possibly requiring impairment charges in the future. Impairment charges recorded in Fiscal 2020 are discussed above in the "Matters Affecting Comparability" section.

Flowers has concluded it has one operating segment based on the nature of products that Flowers sells, an intertwined production and distribution model, the internal management structure and information that is regularly reviewed by the CEO, who is the chief operating decision maker, for the purpose of assessing performance and allocating resources. The company also determined we have one reporting unit.

The company evaluates the recoverability of the carrying value of its goodwill on an annual basis or at a time when events occur that indicate the carrying value of the goodwill may be impaired. We have elected not to perform the qualitative approach, but instead perform a quantitative analysis by comparing the fair value of the reporting unit with which the goodwill is associated to the carrying amount of the reporting unit. If the fair value is less than the carrying value, the goodwill is written down to the extent the carrying amount exceeds the fair value.

Our annual evaluation of goodwill impairment requires management judgment and the use of estimates and assumptions to determine the fair value of our reporting unit. Fair value is estimated using standard valuation methodologies incorporating market participant considerations and management's assumptions on revenue, revenue growth rates, operating margins, discount rates, and EBITDA (defined as earnings before interest, taxes, depreciation and amortization). Our estimates can significantly affect the outcome of the test. We perform the fair value assessment using the income and market approach. Changes in our forecasted operating results and other assumptions could materially affect these estimates. This test is performed in the fourth quarter of each fiscal year unless circumstances require this analysis to be completed sooner. The income approach is tested using a sensitivity analysis to changes in the discount rate and yield a sufficient buffer to significant variances in our estimates. The estimated fair value of our reporting unit exceeded its carrying value in excess of $4.0 billion in Fiscal 2021. A 1% decrease in the discount rate would increase the fair value of the reporting unit by $1.1 billion and a 1% increase in the discount rate would decrease the fair value by $0.8 billion. Based on management's evaluation, no impairment charges relating to goodwill were recorded for Fiscal 2021 or 2020.

In connection with acquisitions, the company has acquired trademarks, customer lists, and non-compete agreements, a portion of which are amortizable. The company evaluates these assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The undiscounted future cash flows of each intangible asset are compared to the carrying amount, and if less than the carrying value, the intangible asset is written down to the extent the carrying amount exceeds the fair value. The fair value is computed using the same approach described above for goodwill and includes the same risks and estimates. The fair value of the trademarks could be less than our carrying value if any of our four material assumptions in our fair value analysis: (a) weighted average cost of capital; (b) long-term sales growth rates; (c) forecasted operating margins; and (d) market multiples do not meet our expectations, thereby requiring us to record an asset impairment. We use the multi-period excess earnings and relief from royalty methods to value these intangibles. The method used for impairment testing purposes is consistent with the valuation method employed at acquisition of the intangible asset. No impairment charges related to amortizing intangible assets were recorded in Fiscal 2021. Impairment charges recorded in Fiscal 2020 related to amortizable intangible assets totaled $5.9 million and are discussed above in the "Matters Affecting Comparability" section.

As of January 1, 2022, the company also owns a trademark acquired through an acquisition with a carrying value of $127.1 million that is an indefinite-lived intangible asset not subject to amortization. The company evaluates the recoverability of intangible assets not subject to amortization by comparing the fair value to the carrying value on an annual basis or at a time when events occur that indicate the carrying value may be impaired. In addition, the assets are evaluated to determine whether events and circumstances continue to support an indefinite life. The fair value is compared to the carrying value of the intangible asset, and if less than the carrying value, the intangible asset is written down to fair value. There are certain inherent risks included in our expectations about the performance of acquired trademarks and brands. If we are unable to implement our growth strategies for these acquired intangible assets as expected, it could adversely impact the carrying value of the brands. The fair value of the trademarks could be less than our carrying value if any of our four material assumptions in our fair value analysis: (a) weighted average cost of capital; (b) long-term sales growth rates; (c) forecasted operating margins; and (d) market multiples do not meet our expectations, thereby requiring us to record an asset impairment.

Leases. The company's leases consist of the following types of assets: two bakeries, corporate office space, warehouses, bakery equipment, transportation, and IT equipment. The company uses the applicable incremental borrowing rate at lease commencement to perform the lease classification tests on lease components and to measure the lease liabilities and right-of-use assets in situations when discount rates implicit in leases cannot be readily determined.

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

A sensitivity analysis has been prepared to quantify the impact of changes in claim severity and frequency on the estimated unpaid losses on the company's workers' compensation liabilities. We estimate a 1% change in the claim severity and frequency would result in immaterial changes in the workers' compensation liability.

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

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenues and expenses. Deferred tax assets and liabilities are measured based on the enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid.

Our income tax expense, deferred tax assets and liabilities, and reserve for uncertain tax benefits reflect our best assessment of future taxes to be paid in the jurisdictions in which we operate. The company records a valuation allowance to reduce its deferred tax assets if we believe it is more likely than not that some or all of the deferred assets will not be realized. While the company considers future taxable income and ongoing prudent and feasible tax strategies in assessing the need for a valuation allowance, if these estimates and assumptions change in the future, the company may be required to adjust its valuation allowance, which could result in a charge to, or an increase in, income in the period such determination is made.

Periodically, we face audits from federal and state tax authorities, which can result in challenges regarding the timing and amount of income or deductions. We provide reserves for potential exposures when we consider it more likely than not that a taxing authority may take a sustainable position on a matter contrary to our position. We evaluate these reserves on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements that may impact the ultimate payment of such potential exposures. While the ultimate outcome of audits cannot be predicted with certainty, we do not currently believe that current or future audits will have a material adverse effect on our consolidated financial condition or results of operations. The company is no longer subject to federal examination for years prior to Fiscal 2018.

Postretirement Plans. The company records pension costs and benefit obligations related to its defined benefit plans based on actuarial valuations. These valuations reflect key assumptions determined by management, including the discount rate, expected long-term rate of return on plan assets and mortality. Material changes in pension costs and in benefit obligations may occur in the future due to experience that is different than assumed and changes in these assumptions. A sensitivity analysis of pension costs has been prepared to quantify the impact of changes in the discount rate. We estimate a 0.25% change in the discount rate would result in approximately $0.1 million change in pension costs on a pre-tax basis.

The company sponsors a defined benefit pension plan for union employees, Plan No. 2, and a frozen nonqualified plan covering former Tasty executives.

We use a spot rate approach ("granular method") to estimate the service cost and interest cost components of benefit cost by applying the specific spot rates along the yield curve to the relevant projected cash flows, as we believe this provides the best estimate of service and interest costs.

The pension plan's investment committee, which consists of certain members of management, establishes investment guidelines and regularly monitors the performance of the plan's assets. The investment committee is responsible for executing these strategies and investing the pension assets in accordance with ERISA and fiduciary standards. The investment objective of the pension plan is to preserve the plan's capital and maximize investment earnings within acceptable levels of risk and volatility. The investment committee meets on a regular basis with its investment advisors to review the performance of the plan's assets. Based upon performance and other measures and recommendations from its investment advisors, the investment committee rebalances the plan's assets to the targeted allocation when considered appropriate. The asset allocation for Plan No. 2 as of December 31, 2021 is equal to 0-80% equity securities, 20-100% fixed-income securities, and 0-10% short-term investments and cash. For the details of our pension plan assets, see Note 20, *Postretirement Plans*, of Notes to Consolidated Financial Statements of this Form 10-K.

In developing the expected long-term rate of return on plan assets at each measurement date, the company considers the plan assets' historical actual returns, targeted asset allocations, and the anticipated future economic environment and long-term performance of the individual asset classes, based on the company's investment strategy. While appropriate consideration is given to recent and historical investment performance, the assumption represents management's best estimate of the long-term prospective return. Further, pension costs do not include an explicit expense assumption, and therefore the return on assets rate reflects the long-term expected return, net of expenses. Based on these factors, the long-term rate of return assumption for Plan No. 2 was set at 5.7% for Fiscal 2021 and 5.9% for Fiscal 2022.

The company utilizes the Society of Actuaries' ("SOA") published mortality tables and improvement scales in developing their best estimates of mortality. In October 2019, the SOA published its final report on their "standard" mortality table ("Pri-2012"). For purposes of measuring pension benefit obligations of Plan No. 2, the company used a blue color adjustment to the Pri-2012 base table and a projection scale of MP-2020. No other collar adjustments are applied for any other plans. In addition, contingent annuitant mortality rates are applied for surviving spouses after the death of the original retiree.

The company determines the fair value of substantially all of its plans' assets utilizing market quotes rather than developing "smoothed" values, "market related" values, or other modeling techniques. Plan asset gains or losses in a given year are included with other actuarial gains and losses due to remeasurement of the plans' projected benefit obligations ("PBO"). If the total unrecognized gain or loss exceeds 10% of the larger of (i) the PBO or (ii) the market value of plan assets, the excess of the total unrecognized gain or loss is amortized over the expected average remaining service period of active covered employees (or average future lifetime of participants if the plan is inactive or frozen). Prior service cost or credit, which represents the effect on plan liabilities due to plan amendments, is amortized over the average remaining service period of active covered employees (or average future lifetime if the plan is inactive or frozen).

In Fiscal 2022, the company expects to make a $1.0 million voluntary cash contribution to Plan No. 2 and expects to pay $0.3 million in nonqualified pension benefits from corporate assets.

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

We grant performance stock awards that separately have a market and performance condition. The expense computed for the total shareholder return shares ("TSR") is fixed and recognized on a straight-line basis over the vesting period. The expense computed for the return on invested capital ("ROIC") shares can change depending on the expected attainment of performance condition goals. The expense for the ROIC shares can be within a range of 0% to 125% of the target. There is a possibility that this expense component will change in subsequent quarters depending on how the company performs relative to the ROIC target. Additionally, there are time-based stock awards that vest over a period of three years. See Note 18, *Stock-Based Compensation*, of Notes to Consolidated Financial Statements of this Form 10-K for additional information. In early Fiscal 2022, the company granted stock awards to certain employees and stock-based compensation expense is expected to increase approximately $2 million to $3 million as compared to Fiscal 2021. In addition, the payout for the Fiscal 2020 grant is currently trending at 125% of target and as a result, we anticipate an additional $1.7 million of expense will be recognized in the first quarter of Fiscal 2022.

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

RESULTS OF OPERATIONS

Consolidated Results - Fiscal 2021 compared to Fiscal 2020

The company's results of operations, expressed as a percentage of sales, are set forth below for Fiscal 2021 and Fiscal 2020:

	Fiscal 2021 52 weeks	Fiscal 2020 53 weeks	Percentage of Sales Fiscal 2021 52 weeks	Percentage of Sales Fiscal 2020 53 weeks	Increase (Decrease) Dollars	Increase (Decrease) %
	(Amounts in thousands, except percentages)					
Sales	$4,330,767	$4,387,991	100.0	100.0	$ (57,224)	(1.3)
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)	2,175,247	2,196,142	50.2	50.0	(20,895)	(1.0)
Selling, distribution and administrative expenses	1,719,797	1,693,387	39.7	38.6	26,410	1.6
Loss on inferior ingredients	944	107	0.0	0.0	837	NM
Restructuring and related impairment charges	—	35,483	—	0.8	(35,483)	NM
Multi-employer pension plan withdrawal costs	3,300	—	0.1	—	3,300	NM
Depreciation and amortization	136,559	141,384	3.2	3.2	(4,825)	(3.4)
Income from operations	294,920	321,488	6.8	7.3	(26,568)	(8.3)
Other components of net periodic pension and postretirement benefits credit	(405)	(74)	(0.0)	(0.0)	(331)	NM
Pension plan settlement and curtailment loss	403	108,757	0.0	2.5	(108,354)	NM
Interest expense, net	8,001	12,094	0.2	0.3	(4,093)	(33.8)
Loss on extinguishment of debt	16,149	—	0.4	—	16,149	NM
Income before income taxes	270,772	200,711	6.3	4.6	70,061	34.9
Income tax expense	64,585	48,393	1.5	1.1	16,192	33.5
Net income	$ 206,187	$ 152,318	4.8	3.5	$ 53,869	35.4
Comprehensive income	$ 202,350	$ 264,762	4.7	6.0	$ (62,412)	(23.6)

NM – the computation is not meaningful

Percentages may not add due to rounding.

<u>Sales</u>

	Fiscal 2021 52 weeks $ (Amounts in thousands)	Fiscal 2021 52 weeks %	Fiscal 2020 53 weeks $ (Amounts in thousands)	Fiscal 2020 53 weeks %	% Change
Branded retail	$ 2,875,418	66.4	$ 2,914,072	66.4	(1.3)
Store branded retail	534,794	12.3	607,741	13.9	(12.0)
Non-retail and other	920,555	21.3	866,178	19.7	6.3
Total	$ 4,330,767	100.0	$ 4,387,991	100.0	(1.3)

(The table above presents certain sales by category that have been reclassified from amounts previously reported to conform to the current period presentation.)

The change in sales was attributable to the following:

Percentage point change in sales attributed to:	Favorable (Unfavorable)
Pricing/mix	4.6
Volume	(4.2)
Impact of 53rd week in Fiscal 2020	(1.7)
Total percentage change in sales	(1.3)

Sales decreased year over year primarily due to the additional week in the prior year and significant declines in store branded retail sales, partially offset by positive pricing implemented during Fiscal 2021 across all sales categories and recovery of non-retail and other sales. In Fiscal 2021, the company has experienced a favorable sales mix of branded retail sales even as away-from-home dining returned to more normal levels. The mix of branded retail sales to total sales remained consistent with Fiscal 2020 which benefitted from increased demand for our branded retail products as consumers shifted to greater at-home consumption due to the pandemic. In Fiscal 2019, branded retail sales comprised 60.1% of total sales which is significantly lower than 66.4% for Fiscal 2021 and 2020. We continued to invest in our brands in Fiscal 2021, including targeting the e-commerce channel which has experienced significant growth during the ongoing pandemic. Improved promotional efficiency (measurement of a promotion's impact on operating performance) in the current year also mitigated the sales decrease. The promotional environment remained relatively stable during Fiscal 2021, however the sustainability of this trend is uncertain.

Branded retail sales declined year over year primarily due to the additional week in the prior year. Positive pricing actions and favorable mix shifts in Fiscal 2021 mostly offset volume declines. We experienced a significant increase in prior year volumes as a result of the onset of the pandemic and the impact of the additional week. Sales of our branded traditional loaf breads experienced the largest declines as we focused production on these items in the prior year to quickly meet heightened customer demand caused by the shift to mostly at-home consumption at the onset of the pandemic. Both our *DKB* organic products and *Canyon Bakehouse* gluten-free products continued to experience volume growth in Fiscal 2021 which partially offset the branded retail sales decline. Fiscal 2021 volumes were still significantly higher than our historical pre-pandemic levels.

Store branded retail sales declined significantly due to decreased volume for store branded breads, buns and rolls as consumers continued to shift to branded retail products and the impact of the additional week in the prior year. These decreases were partially offset by increased sales of store branded cake and gluten-free products. Sales of our store branded retail products had been declining prior to the pandemic and we have experienced an acceleration of this trend during the pandemic, partly due to executing on our strategy to prioritize a more favorable sales mix of branded retail sales.

As discussed above, our non-retail sales recovered during Fiscal 2021 compared to the significant declines experienced in the prior year period due to restaurant and school closures and shutdowns but have not returned to pre-pandemic levels. Increased foodservice volumes and to a lesser extent, positive price/mix drove the increase, partially offset by the impact of the additional week in the prior year and declines in sales of unsold products through our outlet stores.

We anticipate our Fiscal 2022 sales will be positively impacted by the benefit of price increases implemented during Fiscal 2021 and at the beginning of Fiscal 2022, however, this could potentially be offset to some extent by changes in consumer buying patterns which are unpredictable.

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

Line item component	Fiscal 2021 % of sales	Fiscal 2020 % of sales	Change as a % of sales
Ingredients and packaging	28.1	27.4	0.7
Workforce-related costs	14.9	15.1	(0.2)
Other	7.2	7.5	(0.3)
Total	50.2	50.0	0.2

Overall, input cost inflation was mostly mitigated by pricing actions implemented in Fiscal 2021 and the continued shift in mix away from lower margin store branded retail products to higher margin branded retail products. The positive shift in mix resulted from the ongoing COVID-19 pandemic and executing on our strategy to be a more brand-focused company. Additionally, we realized improvement in our cake operations. Ingredient and packaging costs were significantly higher as percent of sales due to higher input prices, mostly notably for non-organic flour, oils, bread bags, and corrugated packaging. Reduced outside purchases of product (sales with no associated ingredient costs) also contributed to the increase in ingredient and packaging costs and these are reflected in the Other line item in the table above. Workforce-related costs decreased as a percent of sales due to lower incentive compensation costs in Fiscal 2021, partly due to decreases in appreciation bonuses for frontline workers of $4.5 million, and the prior year included $5.1 million of start-up costs incurred for the conversion of our Lynchburg, Virginia plant to an organic bakery. These start-up costs were largely workforce-related. The conversion began in the first quarter of Fiscal 2020 and the bakery resumed production at the end of the third quarter. As discussed above, the labor market is highly competitive and the company continues to face labor shortages. We anticipate this trend to continue in Fiscal 2022.

Raw materials, such as our baking ingredients, periodically experience price fluctuations. The cost of these inputs may fluctuate significantly due to government policy and regulation, weather conditions, domestic and international demand and supply, or other unforeseen circumstances. We enter into forward purchase agreements and other derivative financial instruments in an effort to manage the impact of such volatility in raw material prices, but some organic and specialty ingredients do not offer the same hedging opportunities to reduce the impact of price volatility. Any decrease in the availability of these agreements could increase the effective price of these raw materials to us and significantly affect our earnings. We currently anticipate ingredient costs to be significantly higher in Fiscal 2022 relative to Fiscal 2021.

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

Line item component	Fiscal 2021 % of sales	Fiscal 2020 % of sales	Change as a % of sales
Workforce-related costs	11.4	11.5	(0.1)
Distributor distribution fees	14.9	15.3	(0.4)
Other	13.4	11.8	1.6
Total	39.7	38.6	1.1

Workforce-related costs decreased slightly as a percent of sales compared to the prior year primarily due to lower workforce-related incentive costs, including a $2.6 million decrease in appreciation bonuses paid to frontline workers, mostly offset by wage inflation and a competitive labor market. The appreciation bonuses are in addition to the company's annual performance-based cash incentive plan in which all Flowers employees participate. Stock-based compensation expense increased in Fiscal 2021 due to an increase in the number of awards outstanding as compared to Fiscal 2020 and partially offset the overall decrease in workforce-related costs.

Distributor distribution fees decreased as a percent of sales due to the shift in sales mix to include a larger percentage of non-retail and other sales resulting in a smaller portion of our sales being made through IDPs. Non-retail and other sales experienced a partial recovery in Fiscal 2021 after the significant decline in Fiscal 2020 due to the pandemic. The decrease in distributor distribution fees was offset by higher transportation costs which are reflected in the Other line item in the table above.

Increases in marketing investments, higher consulting costs, legal settlements, and transportation costs, and the prior year reimbursement of indirect losses for inferior yeast of $3.9 million primarily resulted in the increase in the Other line item in the table above. We continued to invest in our brands through our marketing efforts, including through broadcast advertising and e-commerce investments, among others. We incurred $31.3 million of business process improvement consulting costs during Fiscal 2021 associated with ongoing transformation strategy initiatives compared to $15.5 million of Project Centennial consulting costs and $4.4 million of ERP Road Mapping consulting costs both incurred in the prior year. For additional details regarding these consulting costs and the reimbursement related to inferior ingredients, see the "Matters Affecting Comparability" section above. In the current year, we incurred $23.1 million of legal settlement and related charges and $3.4 million for the acquisition consideration adjustment compared to $7.3 million of legal settlements in the prior year, as discussed in the "Matters Affecting Comparability" section above. Additionally, See Note 22, *Commitments and Contingencies,* of Notes to Consolidated Financial Statements of this Form 10-K for additional information regarding legal settlements. Higher prices for scrap dough sales in the current year partially offset the overall increase in costs.

Loss on Inferior Ingredients, Restructuring and Related Impairment Charges, and Multi-Employer Pension Plan Withdrawal Costs

Refer to the discussion in the "Matters Affecting Comparability" section above regarding these items.

Depreciation and Amortization Expense

Depreciation and amortization expense was lower in dollars and unchanged as a percent of sales primarily due to a change in the contractual terms with a transportation entity that transports a significant portion of our fresh bakery products no longer qualifying for treatment as an embedded lease as of the end of Fiscal 2020.

Income from Operations

The decrease in income from operations year over year in dollars and as a percent of sales resulted from sales declines, input cost inflation, higher selling, distribution, and administrative expenses, and current year multi-employer pension plan withdrawal costs, as discussed above. The decrease was partially offset by the prior year restructuring and related impairment charges.

Pension Plan Settlement and Curtailment Loss

As discussed in the "Matters Affecting Comparability" section above, we recognized $0.4 million of non-cash pension plan settlement charges in Fiscal 2021 associated with Plan No. 2 and $108.8 million of non-cash pension plan settlement and curtailment charges in Fiscal 2020 composed of a settlement charge of $104.5 million and a curtailment loss of $4.3 million associated with Plan No. 1.

Net Interest Expense

Year over year, net interest expense (exclusive of the portion related to the loss on extinguishment of debt discussed below) decreased in dollars and as a percent of sales primarily due to the lower interest rate on the 2031 notes as compared to the 2022 notes which were redeemed in the first quarter of Fiscal 2021 and, to a lesser extent, lower average amounts outstanding under our borrowing arrangements, partially offset by a decrease in interest income.

Loss on Extinguishment of Debt

In the first quarter of Fiscal 2021, we completed the redemption of the outstanding 2022 notes and incurred a loss of $16.1 million due to the make-whole provision of $15.4 million and the write-off of unamortized debt discount and debt issuance costs totaling $0.7 million as further discussed in the "Matters Affecting Comparability" section above.

Income Tax Expense

The effective tax rate for Fiscal 2021 was 23.9% compared to 24.1% in the prior year. The decrease in the rate year over year was primarily due to state income taxes.

For the current year and prior year, the primary differences in the effective rate and statutory rate related to state income taxes. The Consolidated Appropriations Act, 2021 (CAA Act), American Rescue Plan Act ("ARPA"), and Infrastructure Investment and Jobs Act ("IIJA") did not have a material impact on the effective tax rate for Fiscal 2021 and there is no anticipated material impact on the effective tax rate in future periods.

Comprehensive Income

The decrease in comprehensive income year over year resulted primarily from recognizing the pension plan settlement and curtailment loss in earnings in the prior year in conjunction with the termination of Plan No. 1 and changes in the fair value of derivatives, net of the increase in net earnings.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

Strategy

We believe our ability to consistently generate cash flows from operating activities to meet our liquidity needs is one of our key financial strengths. Furthermore, we strive to maintain a conservative financial position as we believe it allows us flexibility to make investments and acquisitions and is a strategic competitive advantage. Currently, our liquidity needs arise primarily from working capital requirements, capital expenditures, and obligated debt repayments. We believe we currently have access to available funds and financing sources to meet our short and long-term capital requirements. The company's strategy for use of its excess cash flows includes:

- implementing our strategic priorities, including our transformation strategy initiatives;
- paying dividends to our shareholders;
- maintaining a conservative financial position;
- making strategic acquisitions; and
- repurchasing shares of our common stock.

Although there has been no material adverse impact on the company's results of operations, liquidity or cash flows in Fiscal 2021, the COVID-19 pandemic could significantly impact our ability to generate future cash flows and we continue to evaluate various potential COVID-19-related business risks. Those potential risks include the possibility of future economic downturns which could result in a significant shift away from our branded retail products to store branded products, foodservice business continuity as customers have experienced disruptions that negatively impacted their sales and could affect their ability to meet their obligations, including to the company, an extension of days of sales outstanding as customers shift to work-from-home operations, and possible further impacts to production, among other risks.

In light of the potential risks associated with the ongoing pandemic, the company has taken actions to safeguard its capital position. We continue to maintain higher levels of cash on hand compared to pre-pandemic levels and, in the first quarter of Fiscal 2021, we issued the 2031 notes and used the net proceeds from the offering to redeem in full the outstanding 2022 notes, extending the earliest maturity date of our non-revolving debt to 2026. Additionally, we repaid the outstanding balances on both the AR facility and the credit facility with proceeds from the issuance of the 2031 notes and from cash flows from operations. The ongoing COVID-19 pandemic remains fluid and its future impact on the company's business, results of operations, liquidity or capital resources cannot be reasonably estimated with any degree of certainty. If the company experienced a significant reduction in revenues, the company would have additional alternatives to maintain liquidity, including amounts available on our debt facilities, capital expenditure reductions, adjustments to its capital allocation policy, and cost reductions. Although we do not currently anticipate a need, we also believe that we could access the capital markets to raise additional funds. We believe the fundamentals of the company remain strong and that we have sufficient liquidity on hand to continue business operations during the pandemic. The company had total available liquidity of $872.0 million as of January 1, 2022, consisting of cash on hand and the available balances under the credit facility and the AR facility.

We expect the transformation strategy initiatives will require significant capital investment and expense over the next several years. We currently anticipate the upgrade of our ERP system will cost approximately $275 million (of which approximately 40% is expected to be capitalized) and anticipate the upgrade to be completed in 2026. As of January 1, 2022, we had incurred costs related to the project of approximately $47 million. Costs related to the digital initiatives are more fluid and cannot currently be estimated.

The company leases certain property and equipment under various financing and operating lease arrangements. Most of the operating leases provide the company with the option, after the initial lease term, to purchase the property at the then fair value, renew the lease at the then fair value, or return the property. The financing leases provide the company with the option to purchase the property at a fixed price at the end of the lease term. The company believes the use of leases as a financing alternative places the company in a more favorable position to fulfill its long-term strategy for the use of its cash flow. See Note 13, *Leases*, of Notes to Consolidated Financial Statements of this Form 10-K for detailed financial information regarding the company's lease arrangements.

Key items impacting our liquidity, capital resources and financial position in Fiscal 2021 and 2020:

Fiscal 2021:

- We generated $344.6 million of net cash from operating activities.
- We paid dividends to our shareholders of $175.9 million.
- We decreased our total debt outstanding $81.9 million.
- We invested in our business through capital expenditures of $136.0 million (inclusive of $23.0 million of capital expenditures (including amounts recognized in accounts payable at year end) for the ERP upgrade) and purchase of leased warehouses of $64.7 million.
- We paid $1.5 million in restructuring cash payments, all of which had been accrued for in the prior year.
- We incurred business process improvement consulting costs of $31.3 million related to the ongoing transformation strategy initiatives (exclusive of capitalized or deferred costs).

Fiscal 2020:

- We generated $454.5 million of net cash from operating activities.
- We paid dividends to our shareholders of $167.3 million.
- We increased our total debt outstanding $92.5 million.
- We invested in our business through capital expenditures of $97.9 million.
- We incurred Project Centennial implementation costs, including restructuring cash payments of $12.0 million and non-restructuring consulting costs of $15.5 million.
- We incurred ERP Road Mapping costs of $4.4 million.

Liquidity Discussion

Flowers Foods' cash and cash equivalents were $185.9 million at January 1, 2022 and $307.5 million at January 2, 2021. The cash and cash equivalents were derived from the activities presented in the table below (amounts in thousands):

Cash flow component	Fiscal 2021	Fiscal 2020
Cash flows provided by operating activities	$ 344,610	$ 454,464
Cash disbursed for investing activities	(191,438)	(73,992)
Cash disbursed for financing activities	(274,777)	(84,040)
Total change in cash	$ (121,605)	$ 296,432

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

	Fiscal 2021	Fiscal 2020
Depreciation and amortization	$ 136,559	$ 141,384
Restructuring and related impairment charges	—	23,627
Stock-based compensation	21,343	12,855
Deferred income taxes	6,777	(31,154)
Pension and postretirement plans expense (including settlement and curtailment losses)	1,306	109,823
Other non-cash	6,445	16,696
Net non-cash adjustment to net income	$ 172,430	$ 273,231

- Refer to the *Restructuring and related impairment charges* discussion in the "Matters Affecting Comparability" section above regarding this item.
- The change in stock-based compensation from Fiscal 2020 to Fiscal 2021 was primarily due to an increase in the number of awards outstanding in the current year as compared to the prior year.
- For Fiscal 2021 deferred income taxes changed due to changes in temporary differences. For Fiscal 2020, the change in deferred income taxes resulted from changes in temporary differences year over year, including the impact of the termination of Plan No. 1.
- Changes in pension and postretirement plan (benefit) expense were primarily due to the settlement and curtailment loss of $108.8 million recognized in Fiscal 2020 in conjunction with the termination of Plan No. 1.
- Other non-cash items include non-cash interest expense for the amortization of debt discounts and deferred financing costs, activity in allowances for accounts receivable and inventory obsolescence, and gains or losses on the sale of assets.

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

	Fiscal 2021	Fiscal 2020
Changes in accounts receivable, net	$ (10,600)	$ (25,021)
Changes in inventories, net	(9,767)	(1,771)
Changes in hedging activities, net	(4,967)	15,829
Changes in other assets and accrued liabilities, net	(46,749)	53,250
Changes in accounts payable	38,076	(5,772)
Qualified pension plan contributions	—	(7,600)
Net changes in working capital and pension plan contributions	$ (34,007)	$ 28,915

- The change in accounts receivable, inventories, and accounts payable resulted primarily from changes in sales and increases in ingredient and packaging costs year over year.
- Hedging activities change from market movements that affect the fair value and required collateral of positions and the timing and recognition of deferred gains or losses. These changes will occur as part of our hedging program.
- The change in other assets and accrued liabilities primarily resulted from changes in employee compensation accruals, cloud-computing arrangement service contracts, legal settlement accruals, income tax receivable balances, hedge margin, and payroll tax deferrals under the CARES Act. In Fiscal 2021 and 2020, we paid $1.5 million and $12.0 million, respectively, of restructuring-related cash charges. In Fiscal 2021, we accrued $23.1 million of legal settlements and paid

$11.9 million, all of which had been accrued for in prior years. In Fiscal 2020, we accrued $7.3 million and paid $24.5 million in Fiscal 2020, of which $20.9 million had been accrued for in prior years. We anticipate making payments of approximately $38.2 million, including our share of employment taxes, in performance-based cash awards under our cash incentive plans in the first quarter of Fiscal 2022. During Fiscal 2021 and 2020, the company paid $64.6 million and $18.6 million, respectively, including our share of employment taxes, in performance-based cash awards under the company's incentive plan. The increase in performance-based cash awards paid in Fiscal 2021 resulted from improved financial performance in Fiscal 2020. An additional $0.4 million and $0.2 million was paid during Fiscal 2021 and 2020, respectively, for our share of employment taxes on the vesting of the performance-contingent restricted stock awards in each respective year. Under the CARES Act, the company deferred approximately $30.0 million of the employer share of Social Security tax for the period from the beginning of the second quarter of Fiscal 2020 through December 31, 2020 and paid approximately $15.0 million in December 2021 with the remaining amount to be paid by December 31, 2022.

- During Fiscal 2020, we made voluntary contributions to our qualified defined benefit pension plans of $7.6 million. We did not make any contributions to our qualified defined benefit pension plans in Fiscal 2021. We expect to make $1.0 million of voluntary cash contributions to our pension plans in Fiscal 2022 and expect to pay $0.3 million in nonqualified pension benefits from corporate assets. The company believes its cash flow and balance sheet will allow it to fund future pension needs without adversely affecting the business strategy of the company.

Cash Flows Disbursed for Investing Activities. The table below presents net cash disbursed for investing activities for Fiscal 2021 and 2020 (amounts in thousands):

	Fiscal 2021	Fiscal 2020
Purchase of property, plant, and equipment	$ (135,964)	$ (97,929)
Purchase of leased portfolio	(64,689)	—
Principal payments from notes receivable, net of repurchases of independent distributor territories	15,276	18,379
Acquisition of trademarks	(10,200)	—
Proceeds from sale of property, plant and equipment	2,995	5,368
Other	1,144	190
Net cash disbursed for investing activities	$ (191,438)	$ (73,992)

- The company currently estimates capital expenditures of approximately $175.0 million to $185.0 million (inclusive of expenditures for the ERP upgrade of $65.0 million to $75.0 million) in Fiscal 2022.

Cash Flows Disbursed for Financing Activities. The table below presents net cash disbursed for financing activities for Fiscal 2021 and 2020 (amounts in thousands):

	Fiscal 2021	Fiscal 2020
Dividends paid, including dividends on share-based payment awards	$ (175,903)	$ (167,270)
Payment of contingent consideration	—	(4,700)
Payment of financing fees	(6,022)	(206)
Stock repurchases	(9,510)	(783)
Change in bank overdrafts	261	3,134
Net change in debt obligations	(81,858)	92,500
Payments on financing leases	(1,745)	(6,715)
Net cash disbursed for financing activities	$ (274,777)	$ (84,040)

- Our annual dividend rate increased from $0.80 per share in Fiscal 2020 to $0.84 per share in Fiscal 2021. While there are no requirements to increase our dividend rate, we have shown a recent historical trend to do so. We anticipate funding future dividend payments from cash flows from operations.
- The payment for contingent consideration was made to satisfy the contingent consideration liability recorded in the Canyon Bakehouse LLC acquisition.
- We paid financing costs associated with the issuance of the 2031 notes in the first quarter of Fiscal 2021 and for the amendments of the AR facility and credit facility in the third quarter of Fiscal 2021.

- Stock repurchase decisions are made based on our stock price, our belief of relative value, and our cash projections at any given time. See Note 17, *Stockholders' Equity*, of Notes to Consolidated Financial Statements of this Form 10-K for additional information. A portion of these shares were acquired to satisfy employees' tax withholding and payment obligations in connection with the vesting of restricted stock awards, which are repurchased by the company based on the fair market value on the vesting date.
- See the discussion below under the "Capital Structure" section regarding changes in debt obligations.

Capital Structure

Long-term debt and right-of-use lease obligations and stockholders' equity were as follows at January 1, 2022 and January 2, 2021. For a detailed description of our debt and right-of-use lease obligations and information regarding our distributor arrangements, deferred compensation, and guarantees and indemnification obligations, see Note 13, *Leases,* and Note 14, *Debt and Other Commitments*, of Notes to Consolidated Financial Statements of this Form 10-K:

	Interest Rate at January 1, 2022	Final Maturity	Balance at January 1, 2022	Balance at January 2, 2021	Fixed or Variable Rate
			(Amounts in thousands)		
2031 notes	2.40%	2031	$ 493,333	$ —	Fixed Rate
2026 notes	3.50%	2026	397,276	396,705	Fixed Rate
2022 notes	4.38%	2022	—	399,398	Fixed Rate
Credit facility	1.02%	2026	—	50,000	Variable Rate
AR facility	1.00%	2023	—	114,000	Variable Rate
Right-of-use lease obligations		2036	300,522	345,762	
			1,191,131	1,305,865	
Less: Current maturities of long-term debt and right-of-use lease obligations			(47,974)	(51,908)	
Long-term debt and right-of-use lease obligations			$ 1,143,157	$ 1,253,957	

Total stockholders' equity was as follows at January 1, 2022 and January 2, 2021:

	Balance at January 1, 2022	Balance at January 2, 2021
	(Amounts in thousands)	
Total stockholders' equity	$ 1,411,274	$ 1,372,994

On March 9, 2021, the company issued $500.0 million of senior notes with a maturity date of March 15, 2031. The company pays semiannual interest on the 2031 notes on each March 15 and September 15 and the notes bear interest at 2.400% per annum. The net proceeds received of $494.3 million (before expenses and net of debt discount at issuance of $2.4 million and underwriting discount of $3.3 million) from the issuance of the 2031 notes were used for the early redemption of the outstanding 2022 notes and repayments on the AR facility and the credit facility. The early redemption of the 2022 notes resulted in cash payments of $415.4 million (inclusive of a make-whole amount of $15.4 million) which is classified as a financing cash outflow in the Consolidated Statement of Cash Flows. We recognized a loss on extinguishment of debt of $16.1 million comprised of the make-whole cash payment of $15.4 million and non-cash charges of $0.7 million for the write-off of unamortized debt discount and debt issuance costs.

The credit facility and AR facility are generally used for short term liquidity needs. The company has historically entered into amendments and extensions approximately one year prior to the maturity of these facilities. During the third quarter of Fiscal 2021, we amended the credit facility to, among other things, extend the maturity date to July 30, 2026 and amended the AR facility to, among other things, extend the maturity date to September 27, 2023. The following table details the amounts available under the AR facility and credit facility and the highest and lowest balances outstanding under these arrangements during Fiscal 2021:

Facility	Amount Available for Withdrawal at January 1, 2022	Highest Balance in Fiscal 2021	Lowest Balance in Fiscal 2021
	(Amounts in thousands)		
AR facility	$ 194,500	$ 114,000	$ —
Credit facility (1)	491,600	$ 50,000	$ —
	$ 686,100		

(1) Amount excludes a provision in the agreement which allows the company to request an additional $200.0 million in additional revolving commitments.

Amounts outstanding under the credit facility can vary daily. Changes in the gross borrowings and repayments can be caused by cash flow activity from operations, capital expenditures, acquisitions, dividends, share repurchases, and tax payments, as well as derivative transactions which are part of the company's overall risk management strategy as discussed in Note 10, *Derivative Financial Instruments,* of Notes to Consolidated Financial Statements of this Form 10-K. During Fiscal 2021, the company borrowed $10.0 million in revolving borrowings under the credit facility and repaid $60.0 million in revolving borrowings. The amount available under the credit facility is reduced by $8.4 million for letters of credit.

The AR facility and the credit facility are variable rate debt. In periods of rising interest rates, the cost of using these facilities will become more expensive and increase our interest expense. Therefore, borrowings under these facilities provide us the greatest direct exposure to rising rates. In addition, if interest rates do increase, it will make the cost of funds more expensive.

Restrictive financial covenants for our borrowings include such ratios as a minimum interest coverage ratio and a maximum leverage ratio. Our debt may also contain certain customary representations and warranties, affirmative and negative covenants, and events of default. 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 debt agreements and can meet its presently foreseeable financial requirements. As of January 1, 2022 and January 2, 2021, the company was in compliance with all restrictive covenants under our debt agreements.

The company has debt exposure to LIBOR and sufficient LIBOR successor rate provisions to cover the discontinuance of LIBOR. The company continues to monitor the progression of LIBOR discontinuation and the recommendation for an alternative interest rate benchmark.

Special Purpose Entities. At January 1, 2022 and January 2, 2021, the company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes.

Guarantees. In the event the company ceases to utilize the independent distribution form of doing business or exits a geographic market, the company is contractually required to purchase the distribution rights from the independent distributor.

Stock Repurchase Plan. The Board has approved a plan that currently authorizes share repurchases of up to 74.6 million shares of the company's common stock. At the close of the company's fourth quarter on January 1, 2022, 5.8 million shares remained under the existing authorization. Under the plan, the company may repurchase its common stock in open market or privately negotiated transactions or under an accelerated repurchase program at such times and at such prices as determined to be in the company's best interest. These purchases may be commenced or suspended without prior notice depending on then-existing business or market conditions and other factors. During Fiscal 2021, 0.41 million shares of the company's common stock were repurchased under the plan at a cost of $9.5 million and during Fiscal 2020, 0.04 million shares were repurchased under the plan at a cost of $0.8 million. From the inception of the plan through January 1, 2022, 68.8 million shares, at a cost of $652.9 million, have been repurchased. There were no repurchases of the company's common stock during the fourth quarter of Fiscal 2021.

New Accounting Pronouncements Not Yet Adopted

See Note 3, *Recent Accounting Pronouncements,* of Notes to Consolidated Financial Statements of this Form 10-K regarding this information.

Item 7A. *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 forwards, futures, swaps, 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, interest rates and commodity prices could increase significantly, adversely affecting our interest costs and the margins from the sale of our products.

Commodity Price Risk

The company enters into commodity forward, futures, option, and swap contracts 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 January 1, 2022, the company's hedge portfolio contained commodity derivatives with a fair value (liability) of $3.7 million and is based on quoted market prices. The total amount relates to instruments that will be utilized in Fiscal 2022.

A sensitivity analysis has been prepared to quantify the company's potential exposure to commodity price risk with respect to its derivative portfolio. Based on the company's derivative portfolio as of January 1, 2022, a hypothetical ten percent change in commodity prices would increase or decrease the fair value of the derivative portfolio by $4.8 million. The analysis disregards changes in the exposures inherent in the underlying hedged items; however, the company expects that any increase or decrease in the fair value of the portfolio would be substantially offset by increases or decreases in raw material and packaging prices.

Item 8. *Financial Statements and Supplementary Data*

Refer to the Index to Consolidated Financial Statements and the Financial Statement Schedule for the required information.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Management's Evaluation of Disclosure Controls and Procedures:

We have established and maintain a system of disclosure controls and procedures that are 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 ("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 annual report. This evaluation was performed under the supervision and with the participation of management, including both our CEO and our CFO and CAO.

Based upon that evaluation, both our CEO and our CFO and CAO have concluded that these disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our CEO and our CFO and CAO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control — Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation our management concluded that our internal control over financial reporting was effective as of January 1, 2022.

The effectiveness of our internal control over financial reporting as of January 1, 2022 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report which is included herein.

Changes in Internal Control Over Financial Reporting:

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

Item 9B. ***Other Information***

None.

Item 9C. ***Disclosure Regarding Foreign Jurisdictions that Prevent Inspections***

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item with respect to directors of the company is incorporated herein by reference to the information set forth under the captions "Proposal I Election of Directors", "Directors and Corporate Governance — Directors", "Directors and Corporate Governance — Corporate Governance — The Board of Directors and Committees of the Board of Directors", "Directors and Corporate Governance — Corporate Governance — Relationships Among Certain Directors", "Audit Committee Report" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the company's definitive proxy statement for the 2022 Annual Meeting of Shareholders expected to be filed with the SEC in April (the "proxy"). The information required by this item with respect to executive officers of the company is set forth in Part I of this Form 10-K.

We have adopted the Flowers Foods, Inc. Code of Business Conduct and Ethics for Officers and Members of the Board of Directors (the "Code of Business Conduct and Ethics"), which applies to all of our directors and executive officers. The Code of Business Conduct and Ethics is publicly available on our website at www.flowersfoods.com in the "CORPORATE GOVERNANCE" section of the "INVESTORS" tab. If we make any substantive amendments to our Code of Business Conduct and Ethics or we grant any waiver, including any implicit waiver, from a provision of the Code of Business Conduct and Ethics, that applies to any of our directors or executive officers, including our principal executive officer and our principal financial officer and principal accounting officer, we intend to disclose the nature of the amendment or waiver on our website at the same location. Alternatively, we may elect to disclose the amendment or waiver in a current report on Form 8-K filed with the SEC.

Our President and CEO certified to the NYSE on June 23, 2021 pursuant to Section 303A.12 of the NYSE's listing standards, that he was not aware of any violation by Flowers Foods of the NYSE's corporate governance listing standards as of that date.

Item 11. *Executive Compensation*

The information required by this item is incorporated herein by reference to the information set forth under the caption "Executive Compensation" in the proxy.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The following chart sets forth the amounts of securities authorized for issuance under the company's compensation plans as of January 1, 2022.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a)) (c)
Equity compensation plans approved by security holders	—	$ —	3,208,452
Equity compensation plans not approved by security holders	—	—	—
Total	—	$ —	3,208,452

Under the company's 2014 Omnibus Equity and Incentive Compensation Plan (the "Omnibus Plan"), the Board is authorized to grant a variety of stock-based awards, including stock options, restricted stock and deferred stock, to its directors and certain of its employees. The number of securities set forth in column (c) above reflects securities available for issuance as stock options, restricted stock and deferred stock under the company's compensation plans. The number of shares originally available under the Omnibus Plan is 8,000,000 shares. The Omnibus Plan replaced the Flowers Foods' 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009 ("EPIP"), the Stock Appreciation Rights Plan, and the Annual Executive Bonus Plan. As a result, no additional shares will be issued under the EPIP. There are 89,949 deferred shares outstanding under the EPIP that will be issued at the end of the deferral period. See Note 18, *Stock-Based Compensation,* of Notes to Consolidated Financial Statements of this Form 10-K for additional information on equity compensation plans.

The remaining information required by this item is incorporated herein by reference to the information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the proxy.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this item is incorporated herein by reference to the information set forth under the caption "Directors and Corporate Governance — Corporate Governance — Determination of Independence" and "Transactions with Management and Others" in the proxy.

Item 14. ***Principal Accounting Fees and Services***

The information required by this item is incorporated herein by reference to the information set forth under the caption "Proposal III Ratification of Appointment of Independent Registered Public Accounting Firm — Fiscal 2021 and Fiscal 2020 Audit Firm Fee Summary" in the proxy.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) *List of documents filed as part of this report.*

1. *Financial Statements of the Registrant*

   Report of Independent Registered Public Accounting Firm.

   Consolidated Balance Sheets at January 1, 2022 and January 2, 2021.

   Consolidated Statements of Income for Fiscal 2021, Fiscal 2020, and Fiscal 2019.

   Consolidated Statements of Comprehensive Income for Fiscal 2021, Fiscal 2020, and Fiscal 2019.

   Consolidated Statements of Changes in Stockholders' Equity for Fiscal 2021, Fiscal 2020, and Fiscal 2019.

   Consolidated Statements of Cash Flows for Fiscal 2021, Fiscal 2020, and Fiscal 2019.

   Notes to Consolidated Financial Statements.

2. *Exhibits.* The following documents are filed as exhibits hereto:

EXHIBIT INDEX

Exhibit No		Name of Exhibit
2.1	—	Distribution Agreement, dated as of October 26, 2000, by and between Flowers Industries, Inc. and Flowers Foods, Inc. (Incorporated by reference to Exhibit 2.1 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, by and between Flowers Industries, Inc. and Flowers Foods, Inc. (Incorporated by reference to Exhibit 2.2 to Flowers Foods' Annual Report on Form 10-K, dated March 30, 2001, File No. 1-16247).
2.3	—	Acquisition Agreement, dated as of May 31, 2012, by and among Flowers Foods, Inc., Lobsterco I, LLC, Lepage Bakeries, Inc., RAL, Inc., Bakeast Company, Bakeast Holdings, Inc., and the equityholders named therein (Incorporated by reference to Exhibit 2.1 to Flowers Foods' Current Report on Form 8-K, dated June 1, 2012, File No. 1-16247).
2.4	—	Agreement and Plan of Merger, dated as of May 31, 2012, by and among Flowers Foods, Inc., Lobsterco II, LLC, Aarow Leasing, Inc., The Everest Company, Incorporated and the shareholders named therein (Incorporated by reference to Exhibit 2.2 to Flowers Foods' Current Report on Form 8-K, dated June 1, 2012, File No. 1-16247).
2.5	—	Asset Purchase Agreement, dated as of January 11, 2013, by and among Hostess Brands, Inc., Interstate Brands Corporation, IBC Sales Corporation, Flowers Foods, Inc. and FBC Georgia, LLC (Incorporated by reference to Exhibit 2.1 to Flowers Foods' Current Report on Form 8-K, dated January 14, 2013, File No. 1-16247).
2.6	—	Stock Purchase Agreement, dated as of August 12, 2015, by and among AVB, Inc., Goode Seed Holdings, LLC, Goode Seed Co-Invest, LLC, Glenn Dahl, trustee of the Glenn Dahl Family Trust, U/A/D November 28, 2012, David J. Dahl, trustee of the David Dahl Family Trust, U/A/D May 1, 2012, Shobi L. Dahl, trustee of the Shobi Dahl Family Trust, U/A/D, December 16, 2011, Flowers Bakeries, LLC, Flowers Foods, Inc., and Goode Seed Holdings, LLC, as shareholders' representative (Incorporated by reference to Exhibit 2.6 to Flowers Foods' Quarterly Report on Form 10-Q, dated August 6, 2020, File No. 1-16247).
3.1	—	Amended and Restated Articles of Incorporation of Flowers Foods, Inc., as amended through May 21, 2020 (Incorporated by reference to Exhibit 3.1 to Flowers Foods' Current Report on Form 8-K, dated May 28, 2020, File No. 1-16247).
3.2	—	Amended and Restated Bylaws of Flowers Foods, Inc., as amended through May 21, 2020 (Incorporated by reference to Exhibit 3.2 to Flowers Foods' Current Report on Form 8-K, dated May 28, 2020, File No. 1-16247).
4.1	—	Form of Share Certificate of Common Stock of Flowers Foods, Inc. (Incorporated by reference to Exhibit 4.1 to Flowers Foods' Annual Report on Form 10-K, dated February 29, 2012, File No. 1-16247).
4.2	—	Indenture, dated as of April 3, 2012, by and between Flowers Foods, Inc. and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 4.1 to Flowers Foods' Current Report on Form 8-K, dated April 3, 2012, File No. 1-16247).
4.3	—	Officer's Certificate pursuant to Section 2.02 of the Indenture (Incorporated by reference to Exhibit 4.2 to Flowers Foods' Current Report on Form 8-K, dated April 3, 2012, File No. 1-16247).
4.4	—	Form of 4.375% Senior Notes due 2022 (Incorporated by reference to Exhibit 4.3 to Flowers Foods' Current Report on Form 8-K, dated April 3, 2012, File No. 1-16247).
4.5	—	Flowers Foods, Inc. 401(k) Retirement Savings Plan, as amended through December 17, 2013 (Incorporated by reference to Exhibit 4.1 to Flowers Foods' Registration Statement on Form S-8, dated May 21, 2014, File No. 333-196125).
4.6	—	Officer's Certificate pursuant to Section 2.02 of the Indenture (Incorporated by reference to Exhibit 4.2 to Flowers Foods' Current Report on Form 8-K, dated September 28, 2016, File No. 1-16247).
4.7	—	Form of 3.500% Senior Notes due 2026 (Incorporated by reference to Exhibit 4.3 to Flowers Foods' Current Report on Form 8-K, dated September 28, 2016, File No. 1-16247).
4.8	* —	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
4.9	—	Officer's Certificate pursuant to Section 2.02 of the Indenture (Incorporated by reference to Exhibit 4.2 to Flowers Foods' Current Report on Form 8-K, dated March 9, 2021. File No. 1-16247).
4.10	—	Form of 2.400% Senior Notes due 2031 (Incorporated by reference to Exhibit 4.3 to Flowers Foods' Current Report on Form 8-K, dated March 9, 2021. File No. 1-16247).
10.01	—	Amended and Restated Credit Agreement, dated as of May 20, 2011, by and among, Flowers Foods, Inc., the Lenders party thereto from time to time, Cooperative Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland", New York Branch, Branch Banking and Trust Company, and Regions Bank, as co-documentation agents, Bank of America, N.A., as syndication agent, and Deutsche Bank AG New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated May 26, 2011, File No. 1-16247).

Exhibit No		Name of Exhibit
10.02	—	First Amendment to Amended and Restated Credit Agreement, dated as of November 16, 2012, by and among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG, New York Branch, as administrative agent, swingline lender and issuing lender (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated November 21, 2012, File No. 1-16247).
10.03	—	Second Amendment to Amended and Restated Credit Agreement, dated as of April 5, 2013, by and among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, swingline lender and issuing lender (Incorporated by reference to Exhibit 10.3 to Flowers Foods' Current Report on Form 8-K, dated April 10, 2013, File No. 1-16247).
10.04	—	Third Amendment to Amended and Restated Credit Agreement, dated as of February 14, 2014, by and among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, swingline lender and issuing lender (Incorporated by reference to Exhibit 10.2 to Flowers Foods' Current Report on Form 8-K, dated February 18, 2014, File No. 1-16247).
10.05	—	Fourth Amendment to Amended and Restated Credit Agreement, dated as of April 21, 2015, by and among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, the swingline lender and issuing lender (Incorporated by reference to Exhibit 10.5 to Flowers Foods' Quarterly Report on Form 10-Q, dated May 28, 2015, File No. 1-16247).
10.06	—	Fifth Amendment to Amended and Restated Credit Agreement, dated as of April 19, 2016, among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, the swingline lender and issuing lender (Incorporated by reference to Exhibit 10.3 to Flowers Foods' Current Report on Form 8-K, dated April 22, 2016, File No. 1-16247).
10.07	—	Sixth Amendment to Amended and Restated Credit Agreement, dated as of November 29, 2017, among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, the swingline lender and issuing lender (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated November 30, 2017, File No. 1-16247).
10.08	—	Seventh Amendment to Amended and Restated Credit Agreement, dated as of July 30, 2021, among Flowers Foods, Inc., the Lenders party thereto and Deutsche Bank AG New York Branch, as existing administrative agent, the swingline lender and issuing lender, and Deutsche Bank Trust Company Americas, as successor administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated August 2, 2021, File No. 1-16247).
10.09	—	Receivables Loan, Security and Servicing Agreement, dated as of July 17, 2013, by and among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland," New York Branch, as facility agent and as a committed lender, certain financial institutions party thereto from time to time, and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland", New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated July 22, 2013, File No. 1-16247).
10.10	—	First Amendment to Receivables Loan, Security and Servicing Agreement, dated as of August 7, 2014, by and among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland," New York Branch, as facility agent and as a committed lender, and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland", New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated August 12, 2014, File No. 1-16247).
10.11	—	Second Amendment to Receivables Loan, Security and Servicing Agreement, dated as of December 17, 2014, by and among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank," New York Branch, as facility agent and as a committed lender, and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank", New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.9 to Flowers Foods' Annual Report on Form 10-K, dated February 25, 2015, File No. 1-16247).
10.12	—	Third Amendment and Waiver to Receivables Loan, Security and Servicing Agreement, dated as of August 20, 2015, by and among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation B.V., Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank", New York Branch, as facility agent and as a committed lender, PNC Bank, National Association, as facility agent and as a committed lender, and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank," New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.11 to Flowers Foods' Quarterly Report on Form 10-Q, dated November 12, 2015, File No. 1-16247).
10.13	—	Fourth Amendment to Receivables Loan, Security and Servicing Agreement, dated as of September 30, 2016, by and among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation B.V., Coöperatieve Rabobank U.A., as facility agent and as a committed lender, PNC Bank, National Association, as facility agent and as a committed lender, and Coöperatieve Rabobank U.A., New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated October 3, 2016, File No. 1-16247).

Exhibit No		Name of Exhibit
10.14	—	Fifth Amendment to Receivables Loan, Security and Servicing Agreement, dated as of September 28, 2017, among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation B.V., Coöperatieve Rabobank U.A., as facility agent and as a committed lender, PNC Bank, National Association, as facility agent and as a committed lender, and Coöperatieve Rabobank U.A., New York Branch, as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Quarterly Report on Form 10-Q, dated November 8, 2017, File No. 1-16247).
10.15	—	Sixth Amendment to Receivables Loan, Security and Servicing Agreement, dated as of September 27, 2018, among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation B.U., Coöperatieve Rabobank U.A. (f/k/a Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.), as facility agent and committed lender, PNC Bank, National Association, as facility agent and committed lender, and Coöperatieve Rabobank U.A., New York Branch (f/k/a Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., New York Branch), as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Quarterly Report on Form 10-Q, dated November 7, 2018, File No. 1-16247).
10.16	—	Seventh Amendment to Receivables Loan, Security and Servicing Agreement, dated as of September 27, 2019, among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation B.U., Coöperatieve Rabobank U.A. (f/k/a Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.), as facility agent and committed lender, PNC Bank, National Association, as facility agent and committed lender, and Coöperatieve Rabobank U.A., New York Branch (f/k/a Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., New York Branch), as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Quarterly Report on Form 10-Q, dated November 6, 2019, File No. 1-16247).
10.17	—	Eighth Amendment to Receivables Loan, Security and Servicing Agreement, dated as of September 23, 2020, among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation B.V., Coöperatieve Rabobank U.A. (f/k/a Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.), as facility agent for the Nieuw Amsterdam Lender Group and as a committed lender, Regions Bank, as facility agent for the Regions Bank Lender Group and as a committed lender, and Coöperatieve Rabobank U.A., New York Branch (f/k/a Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., New York Branch), as administrative agent (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Quarterly Report on Form 10-Q, dated November 5, 2020, File No. 1-16247).
10.18	—	Ninth Amendment to Receivables Loan, Security and Servicing Agreement, dated as of September 23, 2021, among Flowers Finance II, LLC, Flowers Foods, Inc., Nieuw Amsterdam Receivables Corporation B.V., Coöperatieve Rabobank U.A. (f/k/a Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.), as facility agent for the Nieuw Amsterdam Lender Group and as a committed lender, Regions Bank, as facility agent for the Regions Bank Lender Group and as a committed lender, and Coöperatieve Rabobank U.A., New York Branch (f/k/a Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., New York Branch), as administrative agent (Incorporated by reference to Exhibit 10.2 to Flowers Foods' Quarterly Report on Form 10-Q, dated November 12, 2021. File No. 1-16247).
10.19	+ —	Flowers Foods, Inc. 2001 Equity and Performance Incentive Plan, as amended and restated effective as of April 1, 2009 (Incorporated by reference to Annex A to Flowers Foods' Proxy Statement on Schedule 14A, dated April 24, 2009, File No. 1-16247).
10.20	+ —	Flowers Foods, Inc. Stock Appreciation Rights Plan (Incorporated by reference to Exhibit 10.8 to Flowers Foods' Annual Report on Form 10-K, dated March 29, 2002, File No. 1-16247).
10.21	+ —	Flowers Foods, Inc. Annual Executive Bonus Plan (Incorporated by reference to Annex B to Flowers Foods' Proxy Statement on Schedule 14A, dated April 24, 2009, File No. 1-16247).
10.22	+ —	Flowers Foods, Inc. 2014 Omnibus Equity and Incentive Compensation Plan (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated May 27, 2014, File No. 1-16247).
10.23	+ —	Flowers Foods, Inc. Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.10 to Flowers Foods' Annual Report on Form 10-K, dated March 29, 2002, File No. 1-16247).
10.24	+ —	Form of Indemnification Agreement, by and between Flowers Foods, Inc., certain executive officers and the directors of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.14 to Flowers Foods' Annual Report on Form 10-K, dated March 28, 2003, File No. 1-16247).
10.25	+ —	Flowers Foods, Inc. 2005 Executive Deferred Compensation Plan, effective as of January 1, 2005 (Incorporated by reference to Exhibit 4.7 of Flowers Foods' Registration Statement on Form S-8, dated December 29, 2008, File No. 333-156471).
10.26	+ —	Flowers Foods, Inc. Change of Control Plan, effective as of February 23, 2012 (Incorporated by reference to Exhibit 10.1 to Flowers Foods' Current Report on Form 8-K, dated February 29, 2012, File No. 1-16247).
10.27	+ —	Form of 2019 Performance Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.27 to Flowers Foods' Annual Report on Form 10-K, dated February 20, 2019, File No. 1-16247).

Exhibit No		Name of Exhibit
10.28	+ —	Form of 2019 Time Based Restricted Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.28 to Flowers Foods' Annual Report on Form 10-K, dated February 20, 2019, File No. 1-16247).
10.29	+ —	Form of 2020 Performance Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.30 to Flowers Foods' Annual Report on Form 10-K, dated February 19, 2020, File No. 1-16247).
10.30	+ —	Form of 2020 Time Based Restricted Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.31 to Flowers Foods' Annual Report on Form 10-K, dated February 19, 2020, File No. 1-16247).
10.31	+ —	Form of 2021 Performance Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.29 to Flowers Foods' Annual Report on Form 10-K, dated February 24, 2021, File No. 1-16247).
10.32	+ —	Form of 2021 Time Based Restricted Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc. (Incorporated by reference to Exhibit 10.30 to Flowers Foods' Annual Report on Form 10-K, dated February 24, 2021, File No. 1-16247).
10.33	+* —	Form of 2022 Performance Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc.
10.34	+* —	Form of 2022 Time Based Restricted Stock Agreement, by and between Flowers Foods, Inc. and certain executive officers of Flowers Foods, Inc.
21	* —	Subsidiaries of Flowers Foods, Inc.
23	* —	Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP
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 and 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 A. Ryals McMullian, President and Chief Executive Officer, R. Steve Kinsey, Chief Financial Officer and Chief Accounting Officer for the fiscal year ended January 1, 2022.
101.INS	* —	Inline XBRL Instance Document.
101.SCH	* —	Inline XBRL Taxonomy Extension Schema Linkbase.
101.CAL	* —	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	* —	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB	* —	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE	* —	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	—	The cover page from Flowers Foods' Annual Report on Form 10-K for the fiscal year ended January 1, 2022 has been formatted in Inline XBRL.

* Filed herewith

\+ Management contract or compensatory plan or arrangement

Item 16. *Form 10-K Summary*

The company has elected not to provide summary information.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Flowers Foods, Inc. has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on this 23rd day of February, 2022.

FLOWERS FOODS, INC.

/s/ A. RYALS MCMULLIAN

A. Ryals McMullian
President and
Chief Executive Officer

/s/ R. STEVE KINSEY

R. Steve Kinsey
Chief Financial Officer and
Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of Flowers Foods, Inc. and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ A. RYALS MCMULLIAN A. Ryals McMullian	President and Chief Executive Officer and Director	February 23, 2022
/s/ R. STEVE KINSEY R. Steve Kinsey	Chief Financial Officer and Chief Accounting Officer	February 23, 2022
/s/ GEORGE E. DEESE George E. Deese	Chairman	February 23, 2022
/s/ EDWARD J. CASEY, JR Edward J. Casey, Jr.	Director	February 23, 2022
/s/ THOMAS C. CHUBB III Thomas C. Chubb III	Director	February 23, 2022
/s/ RHONDA O. GASS Rhonda O. Gass	Director	February 23, 2022
/s/ BENJAMIN H. GRISWOLD IV Benjamin H. Griswold IV	Director	February 23, 2022
/s/ MARGARET G. LEWIS Margaret G. Lewis	Director	February 23, 2022
/s/ W. JAMESON MCFADDEN W. Jameson McFadden	Director	February 23, 2022
/s/ JAMES T. SPEAR James T. Spear	Director	February 23, 2022
/s/ MELVIN T. STITH, PH.D. Melvin T. Stith, Ph.D.	Director	February 23, 2022
/s/ TERRY S. THOMAS Terry S. Thomas	Director	February 23, 2022
/s/ C. MARTIN WOOD III C. Martin Wood III	Director	February 23, 2022

FLOWERS FOODS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Flowers Foods, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Flowers Foods, Inc. and its subsidiaries (the "Company") as of January 1, 2022 and January 2, 2021, and the related consolidated statements of income, of comprehensive income, of stockholders' equity and of cash flows for each of the three years in the period ended January 1, 2022, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of January 1, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 1, 2022 and January 2, 2021, and the results of its operations and its cash flows for each of the three years in the period ended January 1, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Workers' Compensation Reserves

As described in Note 2 to the consolidated financial statements, the Company is self-insured for various levels of general liability, including workers' compensation. As of January 1, 2022, self- insurance reserves totaled approximately $28.9 million, of which workers' compensation reserves represent a portion of the total balance. Management estimates workers' compensation reserves based on actual claim data and estimates of incurred but not reported claims developed utilizing historical claim trends, and projected settlements of incurred but not reported claims are estimated based on pending claims, historical trends and industry trends related to expected losses and actual reported losses and key assumptions, including loss development factors and expected loss rates.

The principal considerations for our determination that performing procedures relating to workers' compensation reserves is a critical audit matter are (i) the significant judgment by management when developing the estimated workers' compensation reserves; (ii) a high degree of auditor judgment and subjectivity in performing procedures and in evaluating audit evidence relating to the estimated workers' compensation reserves and management's significant assumptions related to loss development factors and expected loss rates; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's estimate of workers' compensation reserves, including controls over the development of significant assumptions related to the determination of the loss development factors and expected loss rates. These procedures also included, among others, obtaining and evaluating the Company's workers' compensation plan documents and testing management's process for estimating the workers' compensation reserves. Testing management's process included (i) evaluating the reasonableness of significant assumptions, including the loss development factors and expected loss rates used by management to estimate workers' compensation reserves, (ii) testing the completeness and accuracy of incurred and paid claims data used in management's workers' compensation reserves and (iii) using professionals with specialized skill and knowledge to assist in evaluating the appropriateness of the actuarial valuation methods and the reasonableness of loss development factors and expected loss rates.

/s/ PricewaterhouseCoopers LLP
Atlanta, Georgia
February 23, 2022

We have served as the Company's auditor since at least 1969. We have not been able to determine the specific year we began serving as auditor of the Company.

FLOWERS FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	January 1, 2022	January 2, 2021
	(Amounts in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 185,871	$ 307,476
Accounts and notes receivable, net of allowances of $15,398 and $15,162, respectively	305,196	300,001
Inventories:		
Raw materials	54,458	48,977
Packaging materials	24,580	20,744
Finished goods	55,942	55,508
	134,980	125,229
Spare parts and supplies	68,479	68,108
Other	51,592	37,389
Total current assets	746,118	838,203
Property, plant and equipment:		
Land	112,729	93,037
Buildings	550,947	484,805
Machinery and equipment	1,256,821	1,226,403
Furniture, fixtures and transportation equipment	184,528	170,150
Construction in progress	87,367	59,137
	2,192,392	2,033,532
Less: accumulated depreciation	(1,393,664)	(1,334,139)
	798,728	699,393
Financing lease right-of-use assets	3,476	5,419
Operating lease right-of-use assets	289,013	328,712
Notes receivable from independent distributor partners	154,310	176,412
Assets held for sale	11,369	5,641
Other assets	9,623	9,081
Goodwill	545,244	545,244
Other intangible assets, net	695,432	714,918
Total assets	$ 3,253,313	$ 3,323,023
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ —	$ —
Current maturities of financing leases	1,584	1,769
Current maturities of operating leases	46,390	50,139
Accounts payable	268,500	225,918
Other accrued liabilities	203,443	226,279
Total current liabilities	519,917	504,105
Long-term debt and right-of-use lease liabilities:		
Noncurrent long-term debt	890,609	960,103
Noncurrent financing lease obligations	1,910	3,590
Noncurrent operating lease obligations	250,638	290,264
Total long-term debt and right-of-use lease liabilities	1,143,157	1,253,957
Other liabilities:		
Post-retirement/post-employment obligations	7,249	10,049
Deferred taxes	133,757	128,259
Other long-term liabilities	37,959	53,659
Total other long-term liabilities	178,965	191,967
Commitments and contingencies		
Stockholders' equity:		
Preferred stock — $100 stated par value, 200,000 authorized and none issued	—	—
Preferred stock — $.01 stated par value, 800,000 authorized and none issued	—	—
Common stock — $.01 stated par value and $.001 current par value; 500,000,000 authorized shares; 228,729,585 issued shares	199	199
Treasury stock — 17,334,804 and 17,126,261 shares, respectively	(232,304)	(225,405)
Capital in excess of par value	678,414	659,682
Retained earnings	962,378	932,094
Accumulated other comprehensive income	2,587	6,424
Total stockholders' equity	1,411,274	1,372,994
Total liabilities and stockholders' equity	$ 3,253,313	$ 3,323,023

See Accompanying Notes to Consolidated Financial Statements

FLOWERS FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Fiscal 2021 52 weeks	Fiscal 2020 53 weeks	Fiscal 2019 52 weeks
	(Amounts in thousands, except per share data)		
Sales	$ 4,330,767	$ 4,387,991	$ 4,123,974
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)	2,175,247	2,196,142	2,155,709
Selling, distribution and administrative expenses	1,719,797	1,693,387	1,575,122
Depreciation and amortization	136,559	141,384	144,228
Restructuring and related impairment charges	—	35,483	23,524
Loss (recovery) on inferior ingredients	944	107	(37)
Multi-employer pension plan withdrawal costs	3,300	—	—
Income from operations	294,920	321,488	225,428
Interest expense	31,534	38,790	38,847
Interest income	(23,533)	(26,696)	(27,750)
Loss on extinguishment of debt	16,149	—	—
Pension plan settlement and curtailment loss	403	108,757	—
Other components of net periodic pension and postretirement benefits (credit) expense	(405)	(74)	2,248
Income before income taxes	270,772	200,711	212,083
Income tax expense	64,585	48,393	47,545
Net income	$ 206,187	$ 152,318	$ 164,538
Net income per common share:			
Basic:			
Net income per common share	$ 0.97	$ 0.72	$ 0.78
Weighted average shares outstanding	211,840	211,782	211,606
Diluted:			
Net income per common share	$ 0.97	$ 0.72	$ 0.78
Weighted average shares outstanding	213,033	212,345	211,974
Cash dividends paid per common share	$ 0.8300	$ 0.7900	$ 0.7500

See Accompanying Notes to Consolidated Financial Statements

FLOWERS FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fiscal 2021 52 weeks	Fiscal 2020 53 weeks	Fiscal 2019 52 weeks
		(Amounts in thousands)	
Net income	$ 206,187	$ 152,318	$ 164,538
Other comprehensive income, net of tax:			
Pension and postretirement plans:			
Settlement and curtailment loss	302	81,277	—
Net actuarial gain (loss) for the period	788	18,588	(8,000)
Current year prior service credit	1,661	—	—
Amortization of prior service cost included in net income	41	83	259
Amortization of actuarial loss included in net income	400	1,082	5,099
Pension and postretirement plans, net of tax	3,192	101,030	(2,642)
Derivative instruments:			
(Loss) gain on effective portion of derivatives	(5,348)	9,298	8,457
(Gain) loss reclassified to net income	(1,681)	2,116	(2,664)
Derivative instruments, net of tax	(7,029)	11,414	5,793
Other comprehensive (loss) income, net of tax	(3,837)	112,444	3,151
Comprehensive income	$ 202,350	$ 264,762	$ 167,689

See Accompanying Notes to Consolidated Financial Statements

FLOWERS FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Capital		Accumulated Other	Treasury Stock		
	Number of Shares Issued	Par Value	in Excess of Par Value	Retained Earnings	Comprehensive Loss	Number of Shares	Cost	Total
	(Amounts in thousands, except share data)							
Balances at December 29, 2018	228,729,585	$ 199	$ 653,477	$ 945,410	$ (109,171)	(17,834,378)	$ (231,648)	1,258,267
Net income				164,538				164,538
Derivative instruments, net of tax (Note 10)					5,793			5,793
Pension and postretirement plans, net of tax (Note 20)					(2,642)			(2,642)
Stock repurchases						(336,088)	(7,054)	(7,054)
Issuance of deferred stock awards			(911)			69,377	911	—
Amortization of share-based compensation awards			7,430					7,430
Performance-contingent restricted stock awards issued (Note 18)			(11,498)			885,123	11,498	—
Issuance of deferred compensation			(6)			452	6	—
Cumulative effect adjustment for adoption of lease standard, net of tax				(2,915)				(2,915)
Dividends paid on vested performance-contingent restricted stock and deferred share awards				(1,361)				(1,361)
Dividends paid — $0.7500 per common share				(158,626)				(158,626)
Balances at December 28, 2019	228,729,585	$ 199	$ 648,492	$ 947,046	$ (106,020)	$ (17,215,514)	$ (226,287)	$ 1,263,430
Net income				152,318				152,318
Derivative instruments, net of tax (Note 10)					11,414			11,414
Pension and postretirement plans, net of tax (Note 20)					101,030			101,030
Stock repurchases						(37,433)	(783)	(783)
Issuance of deferred stock awards			(651)			49,539	651	—
Amortization of share-based compensation awards			12,855					12,855
Time-based restricted stock awards issued (Note 18)			(975)			74,204	975	—
Issuance of deferred compensation			(39)			2,943	39	—
Dividends paid on vested share-based payments awards				(109)				(109)
Dividends paid — $0.7900 per common share				(167,161)				(167,161)
Balances at January 2, 2021	228,729,585	$ 199	$ 659,682	$ 932,094	$ 6,424	(17,126,261)	$ (225,405)	$ 1,372,994
Net income				206,187				206,187
Derivative instruments, net of tax (Note 10)					(7,029)			(7,029)
Pension and postretirement plans, net of tax (Note 20)					3,192			3,192
Stock repurchases						(406,840)	(9,510)	(9,510)
Issuance of deferred stock awards			(636)			48,231	636	—
Amortization of share-based compensation awards			21,343					21,343
Time-based restricted stock awards issued (Note 18)			(1,798)			136,652	1,798	—
Issuance of deferred compensation			(177)			13,414	177	—
Dividends paid on vested share-based payments awards				(234)				(234)
Dividends paid — $.8300 per common share				(175,669)				(175,669)
Balances at January 1, 2022	228,729,585	$ 199	$ 678,414	$ 962,378	$ 2,587	(17,334,804)	$ (232,304)	$ 1,411,274

See Accompanying Notes to Consolidated Financial Statements

FLOWERS FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal 2021 52 weeks	Fiscal 2020 53 weeks	Fiscal 2019 52 weeks
		(Amounts in thousands)	
Cash flows provided by (disbursed for) operating activities:			
Net income	$ 206,187	$ 152,318	$ 164,538
Adjustments to reconcile net income to net cash provided by operating activities:			
Restructuring and related impairment charges	—	23,627	21,062
Depreciation and amortization	136,559	141,384	144,228
Stock-based compensation	21,343	12,855	7,430
(Gain) loss reclassified from accumulated other comprehensive income to net income	(2,115)	2,675	(3,707)
Deferred income taxes	6,777	(31,154)	18,609
Provision for inventory obsolescence	16	3,601	337
Allowances for accounts receivable	6,071	11,344	11,034
Pension and postretirement plans expense	1,306	109,823	3,234
Other	2,473	(924)	1,579
Qualified pension plan contributions	—	(7,600)	(2,500)
Changes in operating assets and liabilities, net of acquisitions and disposals:			
Accounts receivable, net	(10,600)	(25,021)	(7,809)
Inventories, net	(9,767)	(1,771)	(4,774)
Hedging activities, net	(4,967)	15,829	10,289
Accounts payable	38,076	(5,772)	(14,155)
Other assets and accrued liabilities	(46,749)	53,250	17,557
Net cash provided by operating activities	344,610	454,464	366,952
Cash flows provided by (disbursed for) investing activities:			
Purchases of property, plant and equipment	(135,964)	(97,929)	(103,685)
Repurchase of independent distributor territories	(4,585)	(3,114)	(2,705)
Cash paid at issuance of notes receivable	(12,135)	(10,660)	(22,644)
Principal payments from notes receivable	31,996	32,153	29,173
Acquisition of trademark	(10,200)	—	—
Proceeds from sales of property, plant and equipment	2,995	5,368	2,649
Purchase of leased warehouses	(64,689)	—	—
Other investing activities	1,144	190	119
Net cash disbursed for investing activities	(191,438)	(73,992)	(97,093)
Cash flows provided by (disbursed for) financing activities:			
Dividends paid, including dividends on share-based payment awards	(175,903)	(167,270)	(159,987)
Contingent consideration	—	(4,700)	—
Payments for debt issuance costs	(6,022)	(206)	(110)
Stock repurchases	(9,510)	(783)	(7,054)
Change in bank overdrafts	261	3,134	3,217
Proceeds from debt borrowings	497,570	484,900	609,250
Debt obligation payments	(579,428)	(392,400)	(723,500)
Payments on financing leases	(1,745)	(6,715)	(5,937)
Net cash disbursed for financing activities	(274,777)	(84,040)	(284,121)
Net (decrease) increase in cash and cash equivalents	(121,605)	296,432	(14,262)
Cash and cash equivalents at beginning of period	307,476	11,044	25,306
Cash and cash equivalents at end of period	$ 185,871	$ 307,476	$ 11,044
Schedule of non-cash investing and financing activities:			
Issuance of executive deferred compensation plan common stock	$ 177	$ 39	$ 6
Right-of-use assets obtained in exchange for new financing lease liabilities	$ 37	$ 79	$ 9,854
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 55,869	$ 16,022	$ 44,585
Issuance of notes receivable on new distribution territories, net	$ 21,008	$ 25,029	$ 50,532
Distributor routes sold with deferred gains, net	$ 241	$ 207	$ 241
Purchase of property, plant and equipment included in accounts payable	$ 9,124	$ 4,662	$ 5,983
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 52,620	$ 35,920	$ 36,430
Income taxes paid, net of refunds of $305, $917 and $460, respectively	$ 69,401	$ 68,758	$ 39,121

See Accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

General. The accompanying Consolidated Financial Statements of Flowers Foods, Inc. (the "company", "Flowers Foods", "Flowers", "us", "we", or "our") have been prepared by the company's management in accordance with generally accepted accounting principles in the United States of America ("GAAP").

Reporting Segment. The company has one operating segment based on the nature of products the company sells, intertwined production and distribution model, the internal management structure and information that is regularly reviewed by the chief executive officer ("CEO"), who is the chief operating decision maker, for the purpose of assessing performance and allocating resources.

Note 2. Summary of Significant Accounting Policies

Basis of Consolidation. The Consolidated Financial Statements include the accounts of the company and its wholly-owned subsidiaries. Intercompany transactions and balances are eliminated in consolidation.

Use of 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.

Fiscal Year End. The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2021 consisted of 52 weeks, Fiscal 2020 consisted of 53 weeks, and Fiscal 2019 consisted of 52 weeks.

Revenue Recognition. 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. The recognition of costs for promotion programs involves the use of judgment related to performance and redemption estimates. Estimates are made based on historical experience and other factors. 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 administrative expenses line item on the Consolidated Statements of Income.

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 products when the consumer purchases the products 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 is considered distinct because 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.

In Fiscal 2021, 2020, and 2019, the company recorded $2.2 billion, $2.3 billion, and $1.9 billion, respectively, in sales through SBT.

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 an SBT Outlet, but when our products are purchased by the end consumer. Product inventory in the SBT Outlet is reflected as inventory on the 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 as inventory 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 charge sales or cash sales. The company provides marketing support to the IDP for authorized charge 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 charge 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. Revenue is recognized for cash sales when the company's products are delivered to the IDP because the company has satisfied its performance obligations.

Certain sales are under contracts and include a formal ordering system. Orders are placed primarily using purchase orders ("PO") or electronic data interchange 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 in 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 separately 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 our selling, distribution, and administrative expenses line item on the Consolidated Statements of Income.

The company disaggregates revenue by sales channel. Our sales channels are branded retail, store branded retail, and non-retail and other. The non-retail and other channel includes foodservice, restaurants, institutional, vending, thrift stores, 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. Sales by sales channel category are as follows for Fiscal 2021, 2020, and 2019 (amounts in thousands):

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Branded retail	$ 2,875,418	$ 2,914,072	$ 2,478,669
Store branded retail	534,794	607,741	647,056
Non-retail and other	920,555	866,178	998,249
Total	$ 4,330,767	$ 4,387,991	$ 4,123,974

Cash and Cash Equivalents. The company considers deposits in banks, certificates of deposits, and short-term investments with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash to be cash and cash equivalents.

Accounts and Notes Receivable. Accounts and notes receivable consist of trade receivables, current portions of distributor notes receivable, and miscellaneous receivables. The company recognizes an allowance for credit losses related to its accounts and notes receivable to present the net amount expected to be collected as of the balance sheet date. The company estimates this allowance based on historical data such as days sales outstanding trends, previous write-offs of balances, and weekly reviews of aged trial balances, among others. Accounts and notes receivable balances are written off when deemed uncollectible and are recognized as a deduction from the allowance for credit losses. Expected recoveries, not to exceed the amount previously written off, are considered in determining the reserve balance at the balance sheet date. Activity in the allowance for doubtful accounts is as follows (amounts in thousands):

	Beginning Balance	Charged to Expense	Write-Offs and Other	Ending Balance
Fiscal 2021	$ 15,162	$ 6,071	$ 5,835	$ 15,398
Fiscal 2020	$ 9,473	$ 11,344	$ 5,655	$ 15,162
Fiscal 2019	$ 5,751	$ 11,034	$ 7,312	$ 9,473

Activity in the allowance for trade accounts receivable credit losses for Fiscal 2021 and 2020 was as follows (amounts in thousands):

	Beginning Balance	Charged to Expense	Write-Offs and Other	Recoveries and other	Ending Balance
Fiscal 2021	$ 4,901	$ 596	$ (1,018)	$ (1,927)	$ 2,552
Fiscal 2020	$ 2,089	$ 2,875	$ (2,319)	$ 2,256	$ 4,901

The amounts charged to expense for bad debts in the table above, along with other non-trade accounts receivable amounts, are reported as adjustments to reconcile net income to net cash provided by operating activities in the Consolidated Statements of Cash Flows. The write-offs represent the amounts that are used to reduce the gross accounts and notes receivable at the time the balance due from the customer is written-off. Walmart/Sam's Club is our only customer with a balance greater than 10% of outstanding trade receivables. Their percentage of trade receivables was 19.8% and 18.8%, on a consolidated basis, as of January 1, 2022 and January 2, 2021, respectively. No other customer accounted for greater than 10% of the company's outstanding receivables.

Concentration of Credit Risk. The company performs periodic credit evaluations and grants credit to customers, who are primarily in the grocery and foodservice markets, and generally does not require collateral. Our top 10 customers in Fiscal 2021, 2020, and 2019 accounted for 53.7%, 53.6% and 51.0% of sales, respectively. Our largest customer's, Walmart/Sam's Club, weighted percent of sales for Fiscal 2021, 2020, and 2019 was as follows:

	Percent of Sales
Fiscal 2021	21.2%
Fiscal 2020	21.2%
Fiscal 2019	21.1%

Walmart/Sam's Club is the only customer to account for greater than 10% of the company's sales.

Inventories. Inventories at January 1, 2022 and January 2, 2021 are valued at net realizable value. Costs for raw materials and packaging are recorded at moving average cost. Finished goods inventories are valued at average costs.

The company will write down inventory to net realizable value for estimated unmarketable inventory equal to the difference between the cost of the inventory and the estimated net realizable value for situations when the inventory is impaired by damage, deterioration, or obsolescence.

Activity in the inventory reserve allowance is as follows (amounts in thousands):

	Beginning Balance	Charged to Expense	Write-Offs and Other	Ending Balance
Fiscal 2021	$ 1,920	$ 16	$ 1,652	$ 284
Fiscal 2020	$ 161	$ 3,601	$ 1,842	$ 1,920
Fiscal 2019	$ 143	$ 337	$ 319	$ 161

The amounts charged to expense for inventory loss in the table above are reported as adjustments to reconcile net income to net cash provided by operating activities in the Consolidated Statements of Cash Flows. The write-offs and other column represents the amounts that are used to reduce gross inventories.

Shipping Costs. Shipping costs are included in the selling, distribution and administrative line item of the Consolidated Statements of Income. For Fiscal 2021, 2020, and 2019, shipping costs were $1,063.6 million, $1,075.8 million, and $1,010.5 million, respectively, including the costs paid to IDPs.

Spare Parts and Supplies. The company maintains inventories of spare parts and supplies, which are used for repairs and maintenance of its machinery and equipment. These spare parts and supplies allow the company to react quickly in the event of a mechanical breakdown. These parts are valued using the moving average method and are expensed as the part is used. Periodic physical inventories of the parts are performed, and the value of the parts is adjusted for any obsolescence or difference from the physical inventory count.

Assets Held for Sale. Assets to be sold are classified as held for sale in the period all the required criteria are met. The company generally has three types of assets classified as held for sale. These include distribution rights, plants and depots/warehouses, and other equipment. See Note 8, *Assets Held for Sale*, for these amounts by classification.

Though under no obligation to do so, the company repurchases distribution rights from and sells distribution rights to IDPs from time to time. At the time the company purchases distribution rights from an IDP, the fair value purchase price of the distribution right is recorded as "Assets Held for Sale". Upon the sale of the distribution rights to a new IDP, the new distributor franchisee/owner may choose how he/she desires to finance the purchase of the business. If the new distributor chooses to use optional financing via a company-related entity, a note receivable of up to ten years is recorded for the financed amount with a corresponding credit to assets held for sale to relieve the carrying amount of the territory. Any difference between the selling price of the business and the distribution rights' carrying value, if any, is recorded as a gain or a loss in selling, distribution and administrative expenses because the company considers the IDP activity a cost of distribution. This gain is recognized over the term of the outstanding notes receivable as payments are received from the IDP. In instances where a distribution right is sold for less than its carrying value, a loss is recorded at the date of sale and any impairment of a distribution right held for sale is recorded at such time when the impairment occurs. The deferred gains were $19.7 million and $23.9 million at January 1, 2022 and January 2, 2021, respectively, and are recorded in other short and long-term liabilities on the Consolidated Balance Sheets. The company recorded net gains of $1.6 million during Fiscal 2021, $5.1 million during Fiscal 2020 and $4.1 million during Fiscal 2019 related to the sale of distribution rights as a component of selling, distribution and administrative expenses. The gains recorded during Fiscal 2021 included a loss of $4.7 million of repurchase obligations of distribution rights related to a legal settlement. See Note 22, *Commitments and Contingencies*, for details on this settlement.

Property, Plant and Equipment and Depreciation. Property, plant and equipment is recognized at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the depreciable assets.

The table below presents the range of estimated useful lives by property, plant and equipment class.

	Useful life term (years)	
Asset Class	**Low**	**High**
Buildings	10	40
Machinery and equipment	3	25
Furniture, fixtures and transportation equipment	3	15

Property recorded as leasehold improvements is amortized over the shorter of the lease term or the estimated useful life of the leased property.

Depreciation expense, excluding amortization of right-of-use financing leases, for Fiscal 2021, 2020, and 2019 was as follows (amounts in thousands):

	Depreciation expense
Fiscal 2021	$ 103,949
Fiscal 2020	$ 103,490
Fiscal 2019	$ 107,891

The company had no capitalized interest during Fiscal 2021, 2020, and 2019. The cost of maintenance and repairs is charged to expense as incurred. Upon disposal or retirement, the cost and accumulated depreciation of assets are eliminated from the respective accounts. Any gain or loss is reflected in the company's Consolidated Statements of Income and is included in adjustments to reconcile net income to net cash provided by operating activities in the Consolidated Statements of Cash Flows.

Leases. At the beginning of our Fiscal 2019, the company adopted the new standard using the modified retrospective transition method, which required companies to recognize lease liabilities and a right of use asset for virtually all leases on the balance sheet. The impact at adoption was an increase to assets of $387.3 million and an increase to liabilities of $391.9 million at the beginning of our Fiscal 2019.

The company's leases consist of the following types of assets: bakeries, corporate office space, warehouses, bakery equipment, transportation equipment, and IT equipment (debt is discussed separately in Note 14, *Debt and Other Commitments*).

Real estate and equipment contracts occasionally contain multiple lease and non-lease components. Generally, non-lease components represent maintenance and utility related charges, and are primarily minor to the overall value of applicable contracts. These contracts also contain fixed payments with stated rent escalation clauses or fixed payments based on an index such as CPI. Additionally, some contracts contain tenant improvement allowances, rent holidays, lease premiums, and contingent rent provisions (which are treated as variable lease payments). Building and/or office space leases generally require the company to pay for common area maintenance (CAM), insurance, and taxes that are not included in the base rental payments, with the majority of these leases treated as net leases, and the remainder treated as gross or modified gross leases.

The lease term for real estate leases primarily ranges from one to 22 years, with a few leases that are month to month, and accounted for as short-term leases. See discussion on short-term leases below. The term of bakery equipment leases primarily ranges from less than a year up to seven years. Transportation equipment generally has terms of less than one year up to seven years. IT equipment is typically leased from less than a year up to five years. Certain equipment (i.e., equipment subject to management contracts) and IT equipment leases have terms shorter than a year and are accounted for as short-term leases. See discussion on short-term leases below.

These contracts may contain renewal options for periods of one month up to 10 years at fixed percentages of market pricing, with some that are reasonably certain of exercise. For those contracts that contain leases, the company recognizes renewal options as part of right-of-use assets and lease liabilities. All other renewal and termination options are not reasonably certain of exercise or occurrence as of January 1, 2022.

These contracts may also contain right of first offer purchase options, along with expansion options that are not reasonably certain of exercise. Additionally, these contracts do not contain residual value guarantees, and there are no other restrictions or covenants in the contracts.

For these real estate contracts, the company's exclusive use of specified real estate for a specific term and for consideration resulted in the company treating these contracts as leases under the new standard.

For those contracts that contain leases of buildings and land, the company has elected to not separate land components from leases of specified property, plant, and equipment, as it was determined to have no effect on lease classification for any lease component, and the amounts recognized for the land lease components would have been immaterial.

These contracts may also contain end-term purchase options, whereby, the company may purchase the assets for stated pricing at the lesser of fair market value or a percentage of original asset cost. Yet, these purchase options were determined to not be reasonably certain of exercise or occurrence as of January 1, 2022. Additionally, these contracts do not contain residual value guarantees, and there are no other restrictions or covenants in the contracts.

The company's ability to make those decisions that most effect the economic benefits derived from the use of the equipment, accompanied by receiving substantially all outputs and utility from the use of the equipment resulted in the company accounting for these contracts as leases.

These leases are classified as operating leases under the new standard because real estate leases do not transfer ownership at the end of the lease term, assets are not of such a specialized nature that real estate would not have alternative uses to lessors at the end of the lease term, lease terms do not represent a major part of the total useful life of real estate, and the present value of lease payments do not represent substantially all the fair value of leased assets at commencement.

Short-term leases

The company has also entered into short-term leases of certain real estate assets, along with IT equipment, and various equipment used for short-term bakery needs through equipment placement or service contracts that require purchase of consumables. These leases extend for periods of one to 12 months. Lease term and amounts of payments are generally fixed. There are no purchase options present, however, there generally are renewals that could extend lease terms for additional periods. Generally, renewal options, as they cannot be unilaterally exercised, are not reasonably certain of exercise, do not contain residual value guarantees, and there are no other restrictions or covenants in the leases.

Therefore, the company recognizes lease payments from these short-term leases and variable payments on the Consolidated Statements of Income in the period in which obligation for those payments have been incurred.

Modifications and reassessments

During Fiscal 2021 and 2020, the company elected certain renewal options that were not previously certain of exercise. Election of these renewal options resulted in reassessment of lease terms for the applicable leases.

The company included the renewal periods in measurement of lease terms for the applicable leases. Given that rental payments in the renewal periods were fixed, the company also remeasured the lease payments, and reallocated remaining contract consideration to the lease components within the applicable real estate leases. Although the triggering events did not result in changes to lease classification (i.e., all remained operating leases), they did affect the measurement of lease liabilities, right-of-use assets ("ROU assets"), and amounts recognized as lease expense for the applicable real estate leases.

Other significant judgments and assumptions

For all classes of assets, the company primarily used our incremental borrowing rates ("IBR") to perform lease classification tests and measure lease liabilities because discount rates implicit in the company's leases were not readily determinable.

Embedded leases

The company maintains a transportation agreement with an entity that transports a portion of the company's fresh bakery products from the company's production facilities to outlying distribution centers. The company concluded that this agreement contained embedded leases for the trucks and trailers used to satisfy the service provider's obligations to the company through December 31, 2020. On December 31, 2020, a re-measurement event occurred, and a conclusion was reached that these no longer met the requirements of an embedded lease due to a change in the contractual terms to allow for the substitution of assets, among other changes to the terms. As a result, on January 2, 2021, there were no ROU assets or liabilities associated with the transportation agreement. The gain on the termination of these embedded leases was $4.1 million.

During Fiscal 2020 and Fiscal 2019, the company entered into embedded leases for IT equipment that, as of January 1, 2022, were $3.0 million of financing ROU assets and financing ROU liabilities. As of January 2, 2021, the embedded leases were $4.6 million of financing ROU assets and financing ROU liabilities. The company did not enter into any embedded leases during Fiscal 2021.

See Note 13, *Leases*, for our lease quantitative disclosures.

Segment. The company has one operating segment based on the nature of products the company sells, intertwined production and distribution model, the internal management structure and information that is regularly reviewed by the CEO, who is the chief operating decision maker, for the purpose of assessing performance and allocating resources.

Impairment of Long-Lived Held and Used Assets. The company determines whether there has been an impairment of long-lived held and used assets when indicators of potential impairment are present. We consider historical performance and future estimated results in our evaluation of impairment. If facts and circumstances indicate that the cost of any long-lived held and used assets may be impaired, an evaluation of recoverability would be performed. If an estimate of the asset's fair value is required in order to determine if an impairment should be recorded, the estimated future gross, undiscounted cash flows associated with the asset would be compared to the asset's carrying amount and if lower than the carrying value, a write-down to market value is required.

There were no restructuring and related impairment charges during Fiscal 2021. Total impairments (inclusive of property, plant and equipment, notes receivable, spare parts, and ROU assets) for Fiscal 2020 and 2019, and the line item to which each item is recorded in our Consolidated Statements of Income, are presented below (amounts in thousands):

Restructuring and related impairment charges line item	Fiscal 2020	Fiscal 2019
Plant closings	$ 5,747	$ 5,133
Line and distribution depot closings	629	356
Spare parts	734	174
Lease impairment charges	9,397	—
Impairment of assets	$ 16,507	$ 5,663

Fiscal 2020

During Fiscal 2020, the company sold three closed bakeries included in assets held for sale and certain idle equipment at other bakeries included in property, plant, and equipment, resulting in the recognition of $5.7 million of impairment charges. Additionally, the company recognized property, plant, and equipment impairment charges of $0.6 million for line and distribution depot closures and an office building it decided to sell, and $0.7 million for spare parts related to equipment it no longer intended to use.

Additionally, in order to optimize our distribution network, we vacated certain distribution depots during Fiscal 2020, some of which are owned and others that were leased.

Fiscal 2019

The company recognized impairment charges during the first quarter of Fiscal 2019 related to manufacturing line closures of $0.4 million. During the second quarter of Fiscal 2019, an impairment charge of $1.3 million was recognized for the Winston-Salem, North Carolina closed plant recorded in assets held for sale. The company also recognized an impairment charge of $3.9 million during the third quarter of Fiscal 2019 for the Opelika, Alabama plant closure costs.

The company sold the closed plant in Winston-Salem, North Carolina during the third quarter of Fiscal 2019, at which time an additional $0.2 million of spare parts write-offs were recognized. The company received $1.9 million and recognized a gain of $0.8 million at the time of sale. The impairment charges and the gain recognized are recorded in the restructuring and related impairment charges line item on our Consolidated Statements of Income.

See Note 5, *Restructuring Activities*, for details.

Impairment of Other Intangible Assets. The company accounts for other intangible assets at fair value. These intangible assets can be either finite or indefinite-lived depending on the facts and circumstances at acquisition.

Finite-lived intangible assets are reviewed for impairment when facts and circumstances indicate that the cost of any finite-lived intangible asset may be impaired. This recoverability test is based on an undiscounted cash flows expected to result from the company's use and eventual disposition of the asset. If these cash flows are sufficient to recover the carrying value over the useful life there is no impairment. Amortization of finite-lived intangible assets occurs over their estimated useful lives. The amortization periods, at origination, range from two years to forty years for these assets. The attribution methods we primarily use are the sum-of-the-year digits for customer relationships and straight-line for other intangible assets. These finite-lived intangible assets generally include trademarks, customer relationships, non-compete agreements, distributor relationships, and supply agreements.

Identifiable intangible assets that are determined to have an indefinite useful economic life are not amortized. Indefinite-lived intangible assets are tested for impairment, at least annually, using a one-step fair value-based approach or when certain indicators of potential impairment are present. We have elected not to perform the qualitative approach. We also reassess the indefinite-lived classification to determine if it is appropriate to reclassify these assets as finite-lived assets that will require amortization. We consider historical performance and future estimated results in our evaluation of impairment. If facts and circumstances indicate that the cost of any indefinite-lived intangible assets may be impaired, an evaluation of the fair value of the asset is compared to its carrying amount. If the carrying amount exceeds the fair value, an impairment charge is recorded for the difference.

We use the multi-period excess earnings and relief from royalty methods to value these indefinite-lived intangible assets. Fair value is estimated using the future gross, discounted cash flows associated with the asset using the following five material assumptions: (a) discount rate; (b) long-term sales growth rates; (c) forecasted operating margins (not applicable to the relief from royalty method), (d) assumed royalty rate; and (e) market multiples. The method used for impairment testing purposes is consistent with the valuation method employed at acquisition of the intangible asset. These indefinite-lived intangible assets are trademarks acquired in a purchase business combination.

In order to optimize sales and production of our organic products, the company decided to cease using the *Alpine Valley* finite-lived trademark, resulting in a $4.6 million impairment charge in the second quarter of 2020. In the fourth quarter of Fiscal 2020, an additional $1.3 million impairment charge was recognized at the time the company decided to cease using one of its regional brands. These costs are recorded in the restructuring and related impairment charges line item on our Consolidated Statements of Income.

During Fiscal 2019, the company recorded impairment charges of $15.4 million for trademarks impacted by a brand rationalization study which resulted in changing our focus in certain markets from regional brands to national brands to maximize our marketing and advertising campaigns. See Note 5, *Restructuring Activities*, for details on these impairments. Impairments relating to restructuring charges are recorded in the restructuring and related impairment charges line item in our Consolidated Statements of Income.

The company evaluates useful lives for finite-lived intangible assets to determine if facts or circumstances arise that may impact the estimates of useful lives assigned and the remaining amortization duration. Indefinite-lived intangible assets that are determined to have a finite useful life are tested for impairment as an indefinite-lived intangible asset prior to commencing amortization. We determined that an indefinite-lived asset should be reclassified to finite-lived with an attribution period covering our estimate of the assets' useful life. These intangible assets were assigned a useful life ranging from 5 years to 40 years.

Future adverse changes in market conditions or poor operating results of underlying intangible assets could result in losses or an inability to recover the carrying value of the intangible assets that may not be reflected in the assets' current carrying values, thereby possibly requiring an impairment charge in the future. See Note 9, *Goodwill and Other Intangible Assets*, for additional disclosure.

Goodwill. The company accounts for goodwill in a purchase business combination as the excess of the cost over the fair value of net assets acquired. The company tests goodwill for impairment on an annual basis (or an interim basis if a triggering event occurs that indicates the fair value of our single reporting unit may be below its carrying value) using a one-step method. We have elected not to perform the qualitative approach. The company conducts this review during the fourth quarter of each Fiscal year absent any triggering events. We use the following four material assumptions in our fair value analysis: (a) weighted average cost of capital; (b) long-term sales growth rates; (c) forecasted operating margins; and (d) market multiples. No impairment resulted from the annual review performed in Fiscal 2021, 2020, or 2019. See Note 9, *Goodwill and Other Intangible Assets*, for additional disclosure.

Derivative Financial Instruments. The disclosure requirements for derivatives and hedging 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 and related hedged items, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments and related hedged items, and disclosures about credit-risk-related contingent features in derivative instruments and related hedged items.

The company's objectives in using commodity derivatives are to add stability to materials, supplies, labor, and other production costs and to manage its exposure to certain commodity price movements. To accomplish this objective, the company uses commodity futures as part of its commodity risk management strategy. The company's commodity risk management programs include hedging price risk for wheat, soybean oil, corn, and natural gas primarily using futures contracts. Commodity futures designated as cash flow hedges involve fixing the price on a fixed volume of a commodity on a specified date. The commodity futures are given up to third parties near maturity to price the physical goods (e.g. flour, sweetener, corn, etc.) required as part of the company's production.

As required, the company records all derivatives on the 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 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 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.

For derivatives designated and that qualify as cash flow hedges of commodity price risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income (loss) ("AOCI") and subsequently reclassified in the period during which the hedged transaction affects earnings within the same income statement line item as the earnings effect of the hedged transaction. All our commodity derivatives at January 1, 2022 qualified for hedge accounting. See Note 10, *Derivative Financial Instruments*, for additional disclosure.

The company routinely transfers amounts from AOCI to earnings as transactions for which cash flow hedges were held occur and impact earnings. Amounts reclassified out of AOCI to net income that relate to commodity contracts are presented as an adjustment to reconcile net income to net cash provided by operating activities on the Consolidated Statements of Cash Flows. Significant situations which do not routinely occur that could cause transfers from AOCI to earnings are the cancellation of a forecasted transaction for which a derivative was held as a hedge or a significant and material reduction in volume used of a hedged ingredient such that the company is over hedged and must discontinue hedge accounting. During Fiscal 2021, 2020, and 2019 there were no discontinued hedge positions.

The impact to earnings is included in our materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately) line item. Changes in the fair value of the asset or liability are recorded as either a current or long-term asset or liability depending on the underlying fair value. Amounts reclassified to earnings for the commodity cash flow hedges are presented as an adjustment to reconcile net income to net cash provided by operating activities on the Consolidated Statements of Cash Flows. See Note 10, *Derivative Financial Instruments*, for additional disclosure.

Treasury Stock. The company records acquisitions of its common stock for treasury at cost. Differences between the proceeds for reissuances of treasury stock and average cost are credited or charged to capital in excess of par value to the extent of prior credits and thereafter to retained earnings. See Note 17, *Stockholders' Equity*, for additional disclosure.

Advertising and Marketing Costs. Advertising and marketing costs are expensed the first time the advertising takes place. Advertising and marketing costs were $77.7 million, $60.4 million, and $48.2 million for Fiscal years 2021, 2020, and 2019, respectively. Advertising and marketing costs are recorded in the selling, distribution and administrative expense line item in our Consolidated Statements of Income.

Stock-Based Compensation. Stock-based compensation expense for all share-based payment awards granted is determined based on the grant date fair value. The company recognizes compensation costs only for those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the share-based payment award. The shares issued for exercises and at vesting of the awards are issued from treasury stock. Forfeitures are recognized as they occur. Shares issued at vesting are recorded as reissuances of treasury stock. See Note 18, *Stock-Based Compensation*, for additional disclosure. Stock-based compensation expense is primarily included in selling, distribution and administrative expense in the Consolidated Statements of Income.

Cloud computing arrangements ("CCA"). If a CCA includes a software license, the arrangement is within the scope of the internal-use software guidance. If the CCA does not include a software license (i.e. is hosted), the arrangement is a service contract and the fees for the CCA are recorded as an operating expense. Capitalized implementation costs are amortized over the term of the associated hosted CCA service on a straight-line basis. Amortization begins at the time any component of the hosted CCA service is ready for use. Capitalized implementation costs are presented on the Consolidated Balance Sheets as an other asset. Amortization charges are presented in the selling, distribution, and administrative expenses line on the Consolidated Statements of Income.

Software Development Costs. The company expenses internal and external software development costs incurred in the preliminary project stage, and, thereafter, capitalizes costs incurred in developing or obtaining internally used software. Certain costs, such as maintenance and training, are expensed as incurred. Capitalized costs are amortized over a period of three to eight years and are subject to impairment evaluation. An impairment could be triggered if the company determines that the underlying software under review will no longer be used. The net balance of capitalized software development costs included in plant, property and equipment was $21.1 million and $21.9 million at January 1, 2022 and January 2, 2021, respectively. Amortization expense of capitalized software development costs, which is included in depreciation and amortization expense in the Consolidated Statements of Income, was $9.9 million, $9.3 million, and $10.2 million in Fiscal 2021, 2020, and 2019, respectively.

Income Taxes. The company accounts for income taxes using the asset and liability method and recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income as a discrete item in the period that includes the enactment date.

The company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. The company has considered carryback, future taxable income, and prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event the company was to determine that it would be more likely than not able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the valuation allowance would increase income in the period such a determination was made. Likewise, should the company determine that it would not more likely than not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the valuation allowance would decrease income in the period such determination was made.

The company recognizes a tax benefit from an uncertain tax position when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation process. Interest related to unrecognized tax benefits is recorded within the interest expense line in the accompanying Consolidated Statements of Income. See Note 21, *Income Taxes*, for additional disclosure.

The deductions column in the table below presents the amounts reduced in the deferred tax asset valuation allowance that were recorded to, and included as part of, deferred tax expense. The additions column represents amounts that increased the allowance.

Activity in the deferred tax asset valuation allowance is as follows (amounts in thousands):

	Beginning Balance	Deductions	Additions	Ending Balance
Fiscal 2021	$ 1,030	$ —	$ —	$ 1,030
Fiscal 2020	$ 703	$ —	$ 327	$ 1,030
Fiscal 2019	$ 364	$ —	$ 339	$ 703

Self-Insurance Reserves. The company is self-insured for various levels of general liability, auto liability, workers' compensation, and employee medical and dental coverage. Insurance reserves are calculated based on a combination of an undiscounted basis based on actual claim data and estimates of incurred but not reported claims developed utilizing historical claim trends. Projected settlements of incurred but not reported claims are estimated based on pending claims, historical trends and industry trends related to expected losses and actual reported losses, and key assumptions, including loss development factors and expected loss rates.

Loss Contingencies. Loss contingencies are recorded at the time it is probable an asset is impaired, or a liability has been incurred and the amount can be reasonably estimated. For litigation claims the company considers the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the loss. Losses are recorded in selling, distribution, and administrative expense in our Consolidated Statements of Income.

Net Income Per Common Share. Basic net income per share is computed by dividing net income by the weighted average common shares outstanding for the period. Diluted net income per share is computed by dividing net income by the weighted average common and common equivalent shares outstanding for the period. Common stock equivalents consist of the incremental shares associated with the company's stock compensation plans, as determined under the treasury stock method. The performance contingent restricted stock awards do not contain a non-forfeitable right to dividend equivalents and are included in the computation for diluted net income per share. Fully vested shares which have a deferral period extending beyond the vesting date are included in the computation for basic net income per share. See Note 19, *Earnings Per Share*, for additional disclosure.

Variable Interest Entities. The incorporated IDPs are not voting interest entities since the company has no direct interest in each entity; however, they qualify as variable interest entities ("VIEs"). The IDPs who are formed as sole proprietorships are excluded from the VIE accounting analysis because sole proprietorships are not within scope for determination of VIE status. The company typically finances the incorporated IDP and enters into a contract with the incorporated IDP to supply product at a discount for distribution in the IDP's territory. The combination of the company's loans to the incorporated IDP and the ongoing supply arrangements with the incorporated IDP provides a level of protection to the equity owners of the various distributorships that would not otherwise be available. However, the company is not considered to be the primary beneficiary of the VIEs. See Note 15, *Variable Interest Entities*, for additional disclosure of these VIEs.

The company also 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. The company reconsidered its relationship with the entity because the entity was sold, and the company has concluded the entity no longer qualifies as a VIE beginning in the second quarter of Fiscal 2019. Previously, this entity qualified as a VIE, but the company determined it was not the primary beneficiary of the VIE. See Note 15, *Variable Interest Entities*, for additional disclosure of these VIEs.

Postretirement Plans. The company records pension costs and benefit obligations related to its defined benefit plans based on actuarial valuations. These valuations reflect key assumptions determined by management, including the discount rate, expected long-term rate of return on plan assets and mortality. Material changes in pension costs and in benefit obligations may occur in the future due to experience that is different than assumed and changes in these assumptions. See Note 20, *Postretirement Plans*, for additional disclosure.

Pension Plan Assets. The finance committee of the Board of Directors delegated its fiduciary and other responsibilities with respect to the Company's retirement plans' investment strategies to the investment committee. The investment committee, which consists of certain members of management, establishes investment guidelines and strategies and regularly monitors the performance of the plans' assets. The investment committee is responsible for executing these strategies and investing the pension assets in accordance with ERISA and fiduciary standards. The investment objective of the pension plans is to preserve the plans' capital and maximize investment earnings within acceptable levels of risk and volatility. The investment committee meets on a regular basis with its investment advisors to review the performance of the plans' assets. Based upon performance and other measures and recommendations from its investment advisors, the investment committee rebalances the plans' assets to the targeted allocation when considered appropriate.

Fair Value of Financial Instruments. On March 9, 2021 and September 28, 2016, the company issued $500.0 million of senior notes (the "2031 notes") and $400.0 million of senior notes (the "2026 notes"), respectively. On April 3, 2012, the company issued $400.0 million of senior notes (the "2022 notes") which the company later redeemed on April 8, 2021. These notes are recorded in our financial statements at carrying value, net of debt discount and issuance costs. The debt discount and issuance costs are being amortized over the ten-year term of the note to interest expense. In addition, and for disclosure purposes, the fair value of the notes is estimated using yields obtained from independent pricing sources for similar types of borrowing arrangements and is considered a Level 2 valuation. Additional details are included in Note 16, *Fair Value of Financial Instruments*.

Research and Development Costs. The company recorded research and development costs of $5.6 million, $4.0 million, and $4.3 million for Fiscal 2021, 2020, and 2019, respectively. These costs are recorded as selling, distribution and administrative expenses in our Consolidated Statements of Income.

Other Comprehensive Income (Loss)("OCI"). The company reports comprehensive income in two separate but consecutive financial statements. See Note 6, *Accumulated Other Comprehensive Income (Loss)*, for additional required disclosures.

Business Process Improvement Costs . In the second half of Fiscal 2020, we launched initiatives to transform how we operate our business, which includes upgrading our information system to a more robust platform, as well as investments in e-commerce, autonomous planning, and our "bakery of the future" initiative. These costs may be expensed as incurred, capitalized, recognized as a cloud computing arrangement, or recognized as a prepaid service contract. The expensed portion of the consulting costs related to the transformation strategy initiatives incurred in Fiscal 2021 was $31.3 million. We began planning for the upgrade of our ERP platform and other system related enhancements (the "ERP road mapping") during the third quarter of Fiscal 2020. We incurred consulting costs associated with these activities of $4.4 million. These costs are reflected in the selling, distribution and administrative expenses line item of the Consolidated Statements of Income.

Note 3. Recent Accounting Pronouncements

Pronouncements adopted during Fiscal 2021

In December 2019, the FASB issued guidance which removes certain exceptions for investments, intraperiod allocations and interim calculations, and adds guidance to reduce complexity in accounting for income taxes. The company adopted the new standard as of January 3, 2021, the beginning of our Fiscal 2021. Accounting for franchise taxes required adoption on a retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. All other applicable provisions were adopted on a prospective basis. The adoption of this guidance did not have a material impact on our consolidated financial statements and disclosures.

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848)." This ASU contains practical expedients for reference rate reform related activities that impact debt, leases, derivatives, and other contracts, and the optional expedients can be applied to contract modifications made until December 31, 2022 and elected during this period when rate reform activities occur. During the first quarter of Fiscal 2021, we adopted relevant hedge accounting expedients related to probability and the ongoing assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives, which would then result in the use of a replacement rate for this analysis. We anticipate applying these expedients to hedges impacted by rate reform in the future. Application of these expedients will preserve the presentation of derivatives consistent with past presentation, and as a result, we expect the adoption of this portion of the ASU, when such rate reform activities occur, will not have a material impact to our consolidated financial statements. We will continue to evaluate the impact of the guidance and may apply other elections, as applicable, if additional contract modifications or reform activities occur.

Accounting pronouncements not yet adopted

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

Note 4. Product Recall and Loss (Recovery) on Inferior Ingredients

Product Recall

On July 9, 2019, the company issued a voluntary product recall for certain hamburger and hot dog buns and other bakery products due to the potential presence of small pieces of hard plastic that may have been introduced during production. The products recalled were distributed to retail customers under a variety of brand names in 18 states. The costs for the product recall were $0.8 million for Fiscal 2019. Costs associated with the product recall were reclassified from material, supplies, labor and other production costs and selling, distribution and administrative expenses to the 'loss (recovery) on inferior ingredients' line item in our Consolidated Statements of Income.

Loss (Recovery) on Inferior Ingredients

During Fiscal 2021, the company issued a voluntary recall on certain *Tastykake* multi-pack cupcakes sold in eight states and certain *Tastykake* Krimpets distributed to retail customers throughout the U.S. due to the potential presence of tiny fragments of metal mesh wire. The recall was initiated following notification by a vendor of the possible contamination in a supplied ingredient. We incurred costs of $1.8 million related to the recall. Additionally, the company incurred costs of $0.1 million and received reimbursements of approximately $1.0 million during Fiscal 2021 related to the recall of gluten-free products during Fiscal 2020 discussed below.

During Fiscal 2020, the company received ingredient shipments containing gluten which were used to produce our gluten-free products. The company issued a voluntary product recall due to the potential presence of gluten in certain products. The products recalled were distributed to retail customers in 14 states. The recall was initiated after finished product testing revealed the possible presence of gluten. The cause was gluten present in ingredients from a supplier that should not have contained gluten. We incurred costs of $1.3 million related to the recall of gluten-free products and an adjustment to previously recorded inferior yeast costs discussed below.

In June 2018, the company received from a supplier several shipments of inferior yeast, which reduced product quality and disrupted production and distribution of foodservice and retail bread and buns at several of the company's bakeries during the second quarter. While the supplier confirmed that the inferior yeast used in the baking process was safe for consumption, customers and consumers reported instances of unsatisfactory product attributes, primarily involving smell and taste.

In addition, the company incurred costs associated with inferior whey during the third quarter of Fiscal 2018. A voluntary recall was issued on July 18, 2018 due to the potential of tainted whey. Costs associated with inferior whey were reclassified from material, supplies, labor and other production costs to the 'Loss (recovery) on inferior ingredients' line item in our Consolidated Statements of Income.

During the fourth quarter of Fiscal 2020, the company received a $1.2 million reimbursement from the supplier for the direct costs associated with the inferior yeast. We also received a reimbursement of $3.9 million for indirect losses associated with the inferior yeast, and this amount is included in the selling, distribution, and administrative expenses line item of the Consolidated Statements of Income. During Fiscal 2019, the company received an additional $1.8 million for the reimbursement of costs associated with receiving inferior ingredients. Unless otherwise noted, the costs and reimbursements related to these inferior ingredients are included in the 'Loss (recovery) on inferior ingredients' line item in our Consolidated Statements of Income.

The table below presents the total costs and recoveries during Fiscal 2021, 2020 and 2019 (amounts in thousands):

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Expense recognized	$ 1,894	$ 1,257	$ 1,785
Recoveries recognized	(950)	(1,150)	(1,822)
Total loss (recovery) on inferior ingredients	$ 944	$ 107	$ (37)

Note 5. Restructuring Activities

In Fiscal 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. Most importantly, Project Centennial marked a significant shift in mindset from a sales and operations focused enterprise to a brand focused, consumer focused packaged foods company. Strategic priorities developed as part of Project Centennial were designed to improve margins and profitably grow revenue over time. These priorities included: reducing costs to fuel growth, developing leading capabilities, reinvigorating core business, and capitalizing on product adjacencies.

The company operated under an organizational structure established with two business units ("BUs"), Fresh Bakery and Snacking/Specialty since May of 2017, and realigned key leadership roles. This structure also provided for centralized marketing, sales, supply chain, shared-services/administrative, and corporate strategy functions, each with more clearly defined roles and responsibilities. On July 17, 2020, the company implemented additional organizational structure changes designed to increase focus on brand growth, product innovation, and improving underperforming bakeries. Elimination of the BUs and adoption of a brand focused organizational structure was completed in the third quarter of Fiscal 2020 and the company continues to report our financial results in one operating segment. Project Centennial was completed in Fiscal 2020 and there were no additional costs recognized in Fiscal 2021. See Note 1, *Basis of Presentation,* for a description of our segment presentation.

Unless otherwise noted, restructuring related costs are recorded in the restructuring and related impairments line item on our Consolidated Statements of Income.

The table below presents the components of costs associated with Project Centennial in Fiscal 2020 and 2019 (amounts in thousands):

	Fiscal 2020	Fiscal 2019
Restructuring and related impairment charges:		
Reorganization costs	$ —	$ 253
Lease termination charges	4,077	—
Impairment charges, net of gain on sale	23,627	20,229
Employee termination benefits	7,779	3,042
Restructuring and related impairment charges (1)	35,483	23,524
Project Centennial implementation costs (2)	15,548	784
Total Project Centennial restructuring and implementation costs	$ 51,031	$ 24,308

(1) Presented on our Consolidated Statements of Income.

(2) Represents non-restructuring costs and are recorded in the selling, distribution, and administrative expenses line item of our Consolidated Statements of Income.

The table below details the restructuring impairments (inclusive of property, plant and equipment, ingredient and packaging, and spare parts and intangible assets) that were recognized during Fiscal 2020 and 2019 (amounts in thousands):

	Fiscal 2020	Fiscal 2019
Plant closure costs	$ 5,747	$ 5,133
Line and distribution depot closure costs	629	356
Spare parts	734	174
Brand rationalization study impairments	7,120	15,399
Lease impairment charges	9,397	—
Gain on sale	—	(833)
Total restructuring impairment of assets	$ 23,627	$ 20,229

Fiscal 2020

In order to optimize sales and production of our organic products, the company decided to cease using the *Alpine Valley* finite-lived trademark, resulting in a $4.6 million impairment charge in the second quarter of Fiscal 2020. In the fourth quarter of Fiscal 2020, the company decided to cease using one of its regional brands and recognized an additional $1.3 million impairment charge. Additionally, we recognized $1.2 million of ingredient and packaging impairments as a result of brand and product rationalization initiatives.

During Fiscal 2020, the company sold three closed bakeries that were included in assets held for sale and certain idle equipment at other bakeries that were included in property, plant, and equipment, resulting in the recognition of $5.7 million of impairment charges. Additionally, the company recognized property, plant, and equipment impairment charges of $0.6 million for manufacturing line and distribution depot closures and an office building it has decided to sell, and $0.7 million for spare parts related to equipment the company no longer intends to use.

In order to optimize our distribution network, we vacated certain distribution depots during Fiscal 2020, some of which are owned and others that were leased. This resulted in the recognition of lease impairment charges totaling $9.4 million and lease termination charges of $4.1 million.

During Fiscal 2020, the company incurred $2.6 million of employee termination benefits charges related to a voluntary employee separation incentive plan (the "VSIP"). Additionally, the company announced an involuntary reduction-in-force plan (the "RIF") and recognized charges of $5.3 million during Fiscal 2020. These charges consisted primarily of employee severance and benefits-related costs. All remaining payments related to the plans were paid in early Fiscal 2021.

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 $0.3 million for Fiscal 2019 for relocating employees were incurred. Additionally, a brand rationalization study which identified certain regional brand products that transitioned to national brands resulted in an additional impairment charge of $15.4 million on certain finite-lived intangible assets.

The company recognized an impairment charge of $3.9 million and severance costs of $1.5 million during the third quarter of Fiscal 2019 for the Opelika, Alabama plant closure costs. The company recognized impairment charges during the first quarter of Fiscal 2019 related to manufacturing line closures of $0.4 million. During the second quarter of Fiscal 2019, an impairment charge of $1.3 million was recognized for a closed plant recorded in assets held for sale.

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

	VSIP	RIF	Employee termination benefits(1)	Reorganization costs(2)	Distribution Network Optimization	Total
Liability balance at December 29, 2018	$ 174	$ —	$ 227	$ —	$ —	$ 401
Charges	—	—	3,042	253	—	3,295
Cash payments	—	—	(1,819)	(253)	—	(2,072)
Liability balance (3) at December 28, 2019	$ 174	$ —	$ 1,450	$ —	$ —	$ 1,624
Charges	2,639	5,289	(149)	—	4,077	11,856
Cash payments	(1,777)	(4,817)	(1,301)	—	(4,077)	(11,972)
Liability balance (3) at January 2, 2021	$ 1,036	$ 472	$ —	$ —	$ —	$ 1,508
Charges	—	—	—	—	—	—
Cash payments	(1,036)	(472)	—	—	—	(1,508)
Liability balance (3) at January 1, 2022	$ —	$ —	$ —	$ —	$ —	$ —

(1) Employee termination benefits not related to the VSIP.

(2) Reorganization costs include employee relocation expenses.

(3) Recorded in the other accrued current liabilities line item of our Consolidated Balance Sheets.

Note 6. Accumulated Other Comprehensive Income (Loss)

The company's total comprehensive 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 Fiscal 2021, 2020, and 2019, reclassifications out of AOCI were as follows (amounts in thousands):

Details about AOCI Components (Note 2)	Amount Reclassified from AOCI Fiscal 2021	Fiscal 2020	Fiscal 2019	Affected Line Item in the Statement Where Net Income is Presented
Derivative instruments:				
Interest rate contracts	$ 126	$ (145)	$ (142)	Interest expense
Commodity contracts	2,115	(2,675)	3,707	Cost of sales, Note 3, below
Total before tax	$ 2,241	$ (2,820)	$ 3,565	Total before tax
Tax (expense) benefit	(560)	704	(901)	Tax expense
Total net of tax	$ 1,681	$ (2,116)	$ 2,664	Net of tax
Pension and postretirement plans:				
Prior-service credits	$ (55)	$ (111)	$ (346)	Note 1, below
Settlement loss	(403)	(108,757)	—	Note 1, below
Actuarial losses	(532)	(1,447)	(6,822)	Note 1, below
Total before tax	$ (990)	$ (110,315)	$ (7,168)	Total before tax
Tax benefit	247	27,873	1,810	Tax benefit
Total net of tax	$ (743)	$ (82,442)	$ (5,358)	Net of tax benefit
Total reclassifications from AOCI	$ 938	$ (84,558)	$ (2,694)	Net of tax benefit

Note 1: These items are included in the computation of net periodic pension cost. See Note 20, *Postretirement Plans*, for additional information.

Note 2: Amounts in parentheses indicate debits to determine net income.

Note 3: Amounts are presented as an adjustment to reconcile net income to net cash provided by operating activities on the Consolidated Statements of Cash Flows.

During Fiscal 2021, 2020, and 2019, amounts recognized in AOCI, exclusive of reclassifications, were as follows (amounts in thousands):

AOCI component	Amount of Gain (Loss) Recognized in AOCI Fiscal 2021	Fiscal 2020	Fiscal 2019
Derivative instruments:			
Interest rate contracts	$ 3,902	—	—
Commodity contracts	(11,030)	$ 12,395	$ 11,313
Total before tax	$ (7,128)	$ 12,395	$ 11,313
Tax benefit (expense)	1,780	(3,097)	(2,856)
Total net of tax	$ (5,348)	$ 9,298	$ 8,457
Pension and postretirement plans:			
Current year actuarial loss (gain)	$ 1,050	$ 24,872	$ (10,702)
Current year prior service credit	2,214	—	—
Total before tax	$ 3,264	$ 24,872	$ (10,702)
Tax (expense) benefit	(815)	(6,284)	2,702
Total net of tax	$ 2,449	$ 18,588	$ (8,000)
Total recognized in AOCI	$ (2,899)	$ 27,886	$ 457

During Fiscal 2021, changes to AOCI, net of income tax, by component were as follows (amounts in thousands):

	Cash Flow Hedge Items	Defined Benefit Pension Plan Items	Total
AOCI at January 2, 2021	$ 13,072	$ (6,648)	$ 6,424
Other comprehensive gain before reclassifications	(5,348)	2,449	(2,899)
Reclassified to earnings from AOCI	(1,681)	743	(938)
AOCI at January 1, 2022	$ 6,043	$ (3,456)	$ 2,587

During Fiscal 2020, changes to AOCI, net of income tax, by component were as follows (amounts in thousands):

	Cash Flow Hedge Items	Defined Benefit Pension Plan Items	Total
AOCI at December 28, 2019	$ 1,658	$ (107,678)	$ (106,020)
Other comprehensive loss (gain) before reclassifications	9,298	18,588	27,886
Reclassified to earnings from AOCI	2,116	82,442	84,558
AOCI at January 2, 2021	$ 13,072	$ (6,648)	$ 6,424

Amounts reclassified out of AOCI to net income that relate to commodity contracts are presented as an adjustment to reconcile net income to net cash provided by operating activities on the Consolidated Statements of Cash Flows. The following table presents the net of tax amount of the loss reclassified from AOCI for our commodity contracts (amounts in thousands):

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Gross gain (loss) reclassified from AOCI into income	$ 2,115	$ (2,675)	$ 3,707
Tax (expense) benefit	(529)	668	(936)
Net of tax	$ 1,586	$ (2,007)	$ 2,771

Note 7. Notes Receivable from IDPs

The company provides direct financing to certain IDPs for the purchase of the IDPs' distribution rights and records the notes receivable on the Consolidated Balance Sheets. The distribution rights are financed for up to ten years. During Fiscal 2021, 2020, and 2019 the following amounts were recorded as interest income, the majority of which relates to these notes receivable (amounts in thousands):

	Interest income
Fiscal 2021	$ 23,533
Fiscal 2020	$ 26,696
Fiscal 2019	$ 27,750

The notes receivable are collateralized by the IDPs' distribution rights. Additional details are included in Note 16, *Fair Value of Financial Instruments*.

Note 8. Assets Held for Sale

The company repurchases distribution rights from IDPs in circumstances when the company decides to exit a territory or, in some cases, when the IDP elects to terminate its relationship with the company. In most distributor agreements, if the company decides to exit a territory or stop using the independent distribution model in a territory, the company is contractually required to purchase the distribution rights from the IDP. In the event an IDP terminates its relationship with the company, the company, although not legally obligated, may repurchase and operate those distribution rights as a company-owned territory. The IDPs may also sell their distribution rights to another person or entity. Distribution rights purchased from IDPs and operated as company-owned territories are recorded on the Consolidated Balance Sheets in the line item "Assets Held for Sale" while the company actively seeks another IDP to purchase the distribution rights for the territory. Distribution rights held for sale and operated by the company are sold to IDPs at fair market value pursuant to the terms of a distributor agreement. There are multiple versions of the distributor agreement in place at any given time and the terms of such distributor agreements vary.

During Fiscal 2021, the company sold an office building and certain distribution depots included in assets held for sale at January 2, 2021. The company received net proceeds of $2.2 million and recognized a gain of $0.9 million at the time of sale. Also during Fiscal 2021, the company acquired and classified $1.6 million and $4.3 million of equipment and property, respectively, as held for sale.

During the first quarter of Fiscal 2020, two closed bakeries were reclassified as held for sale. During the second quarter of Fiscal 2020, the company entered into a contract to sell these two closed bakeries and an additional bakery previously recorded as held for sale, resulting in the recognition of $4.2 million of impairment charges. The company recognized a net loss on sale of these assets during the fourth quarter of Fiscal 2020 of $1.4 million recognized in the restructuring and related impairment charges line item on the Consolidated Statements of Income.

The company sold a closed plant in Winston-Salem, North Carolina, which was reclassified to assets held for sale in Fiscal 2017, during the third quarter of Fiscal 2019. The company received $1.9 million and recognized a gain of $0.8 million at the time of sale. The gain on sale is recognized in the restructuring and related impairment charges line item on the Consolidated Statements of Income.

Additional assets recorded in assets held for sale are for property, plant and equipment. The carrying values of assets held for sale are not amortized and are evaluated for impairment as required. The table below presents the assets held for sale as of January 1, 2022 and January 2, 2021, respectively (amounts in thousands):

	January 1, 2022	January 2, 2021
Distribution rights	$ 5,147	$ 3,707
Property, plant and equipment	6,222	1,934
Total assets held for sale	$ 11,369	$ 5,641

Note 9. Goodwill and Other Intangible Assets

The table below summarizes our goodwill and other intangible assets at January 1, 2022 and January 2, 2021, respectively, each of which is explained in additional detail below (amounts in thousands):

	January 1, 2022	January 2, 2021
Goodwill	$ 545,244	$ 545,244
Amortizable intangible assets, net of amortization	568,332	587,818
Indefinite-lived intangible assets	127,100	127,100
Total goodwill and other intangible assets	$ 1,240,676	$ 1,260,162

Goodwill was not impaired in Fiscal 2021, 2020, or 2019.

As of January 1, 2022 and January 2, 2021, the company had the following amounts related to amortizable intangible assets (amounts in thousands):

	January 1, 2022			January 2, 2021		
Asset	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value
Trademarks	$ 477,115	$ 78,124	$ 398,991	$ 466,915	$ 64,426	$ 402,489
Customer relationships	318,021	151,496	166,525	318,021	135,068	182,953
Non-compete agreements	5,154	5,074	80	5,154	5,034	120
Distributor relationships	4,123	3,398	725	4,123	3,123	1,000
Distributor routes held and used	2,548	537	2,011	1,377	121	1,256
Total	$ 806,961	$ 238,629	$ 568,332	$ 795,590	$ 207,772	$ 587,818

The company acquired trademarks for $10.2 million during the second quarter of Fiscal 2021. These trademarks are being amortized over their estimated useful life.

As of January 1, 2022 and January 2, 2021, there was $127.1 million of indefinite-lived intangible trademark assets separately identified from goodwill. These trademarks are classified as indefinite-lived because there is no foreseeable limit to the period over which the asset is expected to contribute to our cash flows. They are well established brands with a long history and well-defined markets. In addition, we are continuing to use these brands both in their original markets and throughout our expansion territories. We believe these factors support an indefinite-life assignment with an annual impairment analysis to determine if the trademarks are realizing their expected economic benefits.

Fiscal 2020 restructuring and related impairment charges

In order to optimize sales and production of our organic products, the company decided to cease using the *Alpine Valley* finite-lived trademark, resulting in a $4.6 million impairment charge in the second quarter of Fiscal 2020. In the fourth quarter of Fiscal 2020, an additional $1.3 million impairment charge was recognized at the time the company decided to cease using another one of its regional brands. These costs are recorded in the restructuring and related impairment charges line item on our Consolidated Statements of Income.

Fiscal 2019 restructuring and related impairment charges

During Fiscal 2019, the company recognized intangible asset impairments of $15.4 million that are recorded in the restructuring and related impairment charges line item of our Consolidated Statements of Income. The impairments are a result of a brand rationalization study that impacted certain trademarks' future use. The study concluded that certain products of our regional brands were to be discontinued or converted to one of our national brands. As a result of these actions, a triggering event occurred, and we examined several trademarks for potential impairment. One of the trademarks was an indefinite-lived trademark asset and was tested by comparing the fair value of the brand to its carrying value. Based on this analysis the indefinite-lived trademark was not impaired, however, the company has evaluated the classification of this asset and determined that it should be recognized as finite-lived as of December 28, 2019 with an estimated useful life of 33 years that began amortizing at the beginning of Fiscal 2020.

Three finite-lived trademark assets were tested using an undiscounted cash flow test. As a result of this test, the projected cash flows for two of the finite-lived brands did not exceed the carrying value. One of the finite-lived brands was not considered impaired using the undiscounted cash flow test. The second step of the test determined the fair value of the asset and the difference between the fair value and the carrying value was recorded as an impairment for the two finite-lived trademark assets that failed step one. The impairment charge also consisted of one brand that has limited future benefits to the company and was fully impaired. All of these impairments were attributed to regional brands.

Amortization expense

Amortization expense for Fiscal 2021, 2020, and 2019 was as follows (amounts in thousands):

	Amortization expense
Fiscal 2021	$ 30,857
Fiscal 2020	$ 30,704
Fiscal 2019	$ 29,323

Estimated amortization of intangibles for Fiscal 2022 and the next four years thereafter is as follows (amounts in thousands):

Fiscal year	Amortization of Intangibles
2022	$ 31,535
2023	$ 30,654
2024	$ 29,959
2025	$ 29,247
2026	$ 27,173

Note 10. Derivative Financial Instruments

The company measures the fair value of its derivative portfolio by using 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 at the measurement date

Level 2: Modeled fair value with model inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Modeled fair value with unobservable model inputs that are used to estimate the fair value of the asset or liability

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, yeast, and shortening, along with pulp, paper, and petroleum-based packaging products. Natural gas, which is used as oven fuel, is also an important commodity used for production.

As of January 1, 2022, the company's commodity hedge portfolio contained derivatives which are recorded in the following accounts with fair values measured as indicated (amounts in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Other current assets	$ 3,955	$ —	$ —	$ 3,955
Other long-term assets	—	—	—	—
Total	$ 3,955	$ —	$ —	$ 3,955
Liabilities:				
Other current liabilities	$ (220)	$ —	$ —	$ (220)
Other long-term liabilities	—	—	—	—
Total	$ (220)	$ —	$ —	$ (220)
Net Fair Value	$ 3,735	$ —	$ —	$ 3,735

As of January 2, 2021, the company's commodity hedge portfolio contained derivatives which are recorded in the following accounts with fair values measured as indicated (amounts in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Other current assets	$ 16,684	$ —	$ —	$ 16,684
Other long-term assets	731	—	—	731
Total	$ 17,415	$ —	$ —	$ 17,415
Liabilities:				
Other current liabilities	$ (5)	$ —	$ —	$ (5)
Other long-term liabilities	(83)	—	—	(83)
Total	(88)	—	—	(88)
Net Fair Value	$ 17,327	$ —	$ —	$ 17,327

The positions held in the portfolio are used to hedge economic exposure to changes in various raw materials and production input prices and effectively fixes the price, or limits increases in prices, during Fiscal 2022. These instruments are designated as cash-flow hedges. See Note 2, *Summary of Significant Accounting Policies*, for the accounting treatment of these hedged transactions.

Interest Rate Risk

During the first quarter of Fiscal 2021, the company entered into treasury locks to fix the interest rate for the 2031 notes issued on March 9, 2021. The derivative positions were closed when the debt was priced on March 2, 2021 with a cash settlement net receipt of $3.9 million that offset changes in the benchmark treasury rate between execution of the treasury rate locks and the debt pricing date. These rate locks were designated as a cash flow hedge and the deferred amount reported in AOCI is being reclassified to interest expense as interest payments are made on the notes through the maturity date.

The company previously entered into treasury rate locks at the time we executed the 2026 notes. These rate locks were designated as a cash flow hedge and the fair value at termination was deferred in AOCI. The deferred amount reported in AOCI is being reclassified to interest expense as interest payments are made on the related notes through the maturity date.

Derivative Assets and Liabilities

The company had the following derivative instruments recorded on the Consolidated Balance Sheets, all of which are utilized for the risk management purposes detailed above (amounts in thousands):

	Derivative Assets			
	January 1, 2022		January 2, 2021	
Derivatives Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts	Other current assets	$ 3,955	Other current assets	$ 16,684
Commodity contracts	Other long-term assets	—	Other long-term assets	731
Total		$ 3,955		$ 17,415

	Derivative Liabilities			
	January 1, 2022		January 2, 2021	
Derivatives Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts	Other current liabilities	$ 220	Other current liabilities	$ 5
Commodity contracts	Other long-term liabilities	—	Other long-term liabilities	83
Total		$ 220		$ 88

Derivative AOCI transactions

The company had the following derivative instruments for deferred gains and (losses) on closed contracts and the effective portion for changes in fair value recorded in AOCI (no amounts were excluded from the effectiveness test), all of which are utilized for the risk management purposes detailed above (amounts in thousands and net of tax):

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) (Net of tax)		
Derivatives in Cash Flow Hedging Relationships	Fiscal 2021	Fiscal 2020	Fiscal 2019
Interest rate contracts	$ 2,926	$ —	$ —
Commodity contracts	$ (8,274)	$ 9,298	$ 8,457
Total	$ (5,348)	$ 9,298	$ 8,457

	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)(Net of tax)			Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)
Derivatives in Cash Flow Hedging Relationships	Fiscal 2021	Fiscal 2020	Fiscal 2019	
Interest rate contracts	$ 95	$ (109)	$ (107)	Interest income (expense)
Commodity contracts	1,586	(2,007)	2,771	Production costs (1)
Total	$ 1,681	$ (2,116)	$ 2,664	

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

The balance (credit or (debit) balance) in AOCI related to commodity price risk and interest rate risk derivative transactions that are closed or will expire over the next three years are as follows (amounts in thousands and net of tax) at January 1, 2022:

	Commodity Price Risk Derivatives	Interest Rate Risk Derivatives	Totals
Closed contracts	$ 179	$ 3,063	$ 3,242
Expiring in 2022	2,801	—	2,801
Total	$ 2,980	$ 3,063	$ 6,043

See Note 2, *Summary of Significant Accounting Policies*, for the accounting treatment of OCI for these hedged transactions.

Derivative transactions notional amounts

As of January 1, 2022, the company had entered into the following financial contracts to hedge commodity risks (amounts in thousands):

Derivatives in Cash Flow Hedging Relationships	Notional amount
Wheat contracts	$ 32,731
Soybean oil contracts	7,088
Natural gas contracts	3,663
Corn contracts	342
Total	$ 43,824

The company's derivative instruments contained no credit-risk-related contingent features at January 1, 2022. As of January 1, 2022 and January 2, 2021, the company had $2.0 million and $1.2 million, respectively, recorded in other current assets representing collateral to counterparties for hedged positions. As of January 1, 2022 and January 2, 2021, the company had $3.4 million and $14.0 million, respectively, recorded in other accrued liabilities representing collateral from counterparties for hedged positions.

Note 11. Other Current and Non-Current Assets

Other current assets consist of (amounts in thousands):

	January 1, 2022	January 2, 2021
Prepaid assets	$ 12,576	$ 8,140
Service contracts	19,884	7,911
Fair value of derivative instruments	3,955	16,684
Collateral to counterparties for derivative positions	2,039	1,229
Income taxes receivable	13,001	2,211
Other	137	1,214
Total	$ 51,592	$ 37,389

Other non-current assets consist of (amounts in thousands):

	January 1, 2022	January 2, 2021
Unamortized financing fees	$ 1,574	$ 836
Investments	3,145	3,242
Fair value of derivative instruments	—	731
Deposits	2,202	2,092
Unamortized cloud computing arrangement costs	1,215	2,059
Noncurrent pension asset	1,281	—
Other	206	121
Total	$ 9,623	$ 9,081

Note 12. Other Accrued Liabilities and Other Long-Term Liabilities

Other accrued liabilities consist of (amounts in thousands):

	January 1, 2022	January 2, 2021
Employee compensation	$ 25,505	$ 28,826
VSIP and RIF liabilities	—	1,508
Employee vacation	15,782	16,216
Employee bonus	33,413	57,394
Fair value of derivative instruments	220	5
Self-insurance reserves	29,828	29,367
Bank overdraft	17,161	16,900
Accrued interest	7,202	8,241
Accrued taxes	23,911	22,773
Accrued legal costs	1,746	1,644
Accrued advertising	4,294	3,610
Accrued legal settlements	16,500	11,869
Accrued short term deferred income	4,040	4,760
Accrued utilities	6,741	6,070
Acquisition consideration adjustment	3,400	—
Collateral from counterparties for derivative positions	3,377	13,997
Multi-employer pension plan withdrawal liability	2,100	—
Repurchase obligations of distribution rights	4,743	—
Other	3,480	3,099
Total	$ 203,443	$ 226,279

In connection with an acquisition completed in Fiscal 2012, the company agreed to make the selling shareholders whole for certain taxes incurred by the stakeholders on the sale. There was recently a tax determination that the selling shareholders owed additional taxes. Unless there is a successful appeal which overturns the determination, the company estimates that it will owe the shareholders approximately $3.4 million and the company has recorded this cost in the selling, distribution and administrative expenses line item of the Consolidated Statements of Income.

The repurchase of distribution rights is part of a legal settlement which requires a phased repurchase of approximately 75 distribution rights. See Note 22, *Commitments and Contingencies,* for details on this settlement.

Other long-term liabilities consist of (amounts in thousands):

	January 1, 2022	January 2, 2021
Deferred income	$ 15,676	$ 19,153
Deferred compensation	20,188	16,674
Fair value of derivative instruments	—	83
Other deferred credits	720	1,502
Deferred payroll taxes under the CARES Act	—	14,992
Other	1,375	1,255
Total	$ 37,959	$ 53,659

Note 13. Leases

Qualitative disclosures about our leases, including the significant policy elections, can be found in Note 2, *Summary of Significant Accounting Policies*. The quantitative disclosures are presented below.

Lease costs incurred by lease type, and/or type of payment for Fiscal 2021, 2020 and 2019 were as follows (in thousands):

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Lease cost:			
Amortization of right-of-use assets	$ 1,751	$ 7,190	$ 7,014
Interest on lease liabilities	154	846	994
Operating lease cost	68,927	69,926	69,525
Short-term lease cost	3,075	3,058	2,630
Variable lease cost	27,120	24,815	26,359
Total lease cost	$ 101,027	$ 105,835	$ 106,522

Other supplemental quantitative disclosures as of, and for, Fiscal 2021 and Fiscal 2020 were as follows (in thousands):

	Fiscal 2021	Fiscal 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from financing leases	$ 154	$ 846
Operating cash flows from operating leases	$ 68,802	$ 74,226
Financing cash flows from financing leases	$ 1,745	$ 6,715
Right-of-use assets obtained in exchange for new financing lease liabilities	$ 37	$ 79
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 55,869	$ 16,022
Weighted-average remaining lease term (years):		
Financing leases	2.1	3.1
Operating leases	8.3	9.4
Weighted-average IBR (percentage):		
Financing leases	3.5	3.5
Operating leases	3.8	4.1

Estimated undiscounted future lease payments under non-cancelable operating leases and financing leases, along with a reconciliation of the undiscounted cash flows to operating and financing lease liabilities, respectively, as of January 1, 2022 (in thousands) were as follows:

	Operating lease liabilities	Financing lease liabilities
2022	$ 56,925	$ 1,691
2023	53,900	1,828
2024	45,269	101
2025	42,386	—
2026	28,591	—
Thereafter	127,734	—
Total minimum lease payments	354,805	3,620
Less: amount of lease payments representing interest	(57,777)	(126)
Present value of future minimum lease payments	297,028	3,494
Less: current obligations under leases	(46,390)	(1,584)
Long-term lease obligations	$ 250,638	$ 1,910

The following table details lease modifications and renewals and lease impairments (amounts in thousands):

	Fiscal 2021	Fiscal 2020
Lease modifications and renewals	$ 46,790	$ 13,818
Lease impairments	—	$ 11,400
Lease terminations	$ 41,610	$ 14,817

During Fiscal 2021, the company purchased twenty-seven warehouses that were included in the company's operating leased assets for $64.7 million. Two of the purchased properties were fully impaired in Fiscal 2020, resulting in the recognition of a $2.6 million gain upon completion of the purchase of these assets and this amount is included in the selling, distribution, and administrative expenses line items of the Consolidated Statements of Income. The carrying values for the remaining twenty-five leases, totaling $35.4 million, are included in the 'Lease terminations' line above.

Note 14. Debt and Other Commitments

Long-term debt, including capital lease obligations, consisted of the following at January 1, 2022 and January 2, 2021:

	Interest Rate at January 1, 2022	Final Maturity	January 1, 2022	January 2, 2021
			(Amounts in thousands)	
Unsecured credit facility	1.02%	2026	$ —	$ 50,000
2031 notes	2.40%	2031	493,333	—
2026 notes	3.50%	2026	397,276	396,705
2022 notes	4.38%	2022	—	399,398
Accounts receivable securitization facility	1.00%	2023	—	114,000
			890,609	960,103
Current maturities of long-term debt			—	—
Long-term debt			$ 890,609	$ 960,103

Bank overdrafts occur when checks have been issued but have not been presented to the bank for payment. Certain of our banks allow us to delay funding of issued checks until the checks are presented for payment. The delay in funding results in a temporary source of financing from the bank. The activity related to bank overdrafts is shown as a financing activity in our Consolidated Statements of Cash Flows. Bank overdrafts are included in other current liabilities on our Consolidated Balance Sheets. As of January 1, 2022 and January 2, 2021, the bank overdraft balance was $17.2 million and $16.9 million, respectively.

The company also had standby letters of credit ("LOCs") outstanding of $8.4 million at January 1, 2022 and January 2, 2021, which reduce the availability of funds under the credit facility. The outstanding LOCs are for the benefit of certain insurance companies and lessors. None of the LOCs are recorded as a liability on the Consolidated Balance Sheets.

2031 Notes, 2026 Notes, Accounts Receivable Securitization Facility, 2022 Notes, and Credit Facility

2031 Notes. On March 9, 2021, the company issued $500.0 million of senior notes. The company will pay semiannual interest on the 2031 notes on each March 15 and September 15 and the 2031 notes will mature on March 15, 2031. The notes bear interest at 2.400% per annum. On any date prior to December 15, 2030, the company may redeem some or all of the notes at a price equal to the greater of (1) 100% of the principal amount of the notes redeemed and (2) a "make-whole" amount plus, in each case, accrued and unpaid interest. The make-whole amount is equal to the sum of the present values of the remaining scheduled payments of principal and interest on the 2031 notes to be redeemed that would be due if such notes matured December 15, 2030 (exclusive of interest accrued to, but not including, the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at a rate equal to the sum of the applicable treasury rate (as defined in the indenture governing the notes), plus 20 basis points, plus, in each case, accrued and unpaid interest. At any time on or after December 15, 2030, the company may redeem some or all of the 2031 notes at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest. If the company experiences a "change of control triggering event" (which involves a change of control of the company and the related rating of the notes below investment grade), it is required to offer to purchase the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest thereon unless the company has exercised its option to redeem the notes in whole. The 2031 notes are also subject to customary restrictive covenants for investment grade debt, including certain limitations on liens and sale and leaseback transactions.

The face value of the 2031 notes is $500.0 million. There was a debt discount representing the difference between the net proceeds, after expenses, received upon issuance of debt and the amount repayable at its maturity. The company also accrued issuance costs (including underwriting fees and other fees) on the 2031 notes. Debt issuance costs and the debt discount are being amortized to interest expense over the term of the 2031 notes. As of January 1, 2022, the company was in compliance with all restrictive covenants under the indenture governing the 2031 notes. The table below presents the debt discount, underwriting fees and other fees for issuing the 2031 notes (amounts in thousands):

Total fees for 2031 notes		Amount at Issuance
Debt discount	$	2,430
Underwriting, legal, and other fees		4,829
Total fees	$	7,259

2026 Notes. On September 28, 2016, the company issued $400.0 million of senior notes (the “2026 notes”). The company will pay semiannual interest on the 2026 notes on each April 1 and October 1, beginning on April 1, 2017, and the 2026 notes will mature on October 1, 2026. The notes bear interest at 3.500% per annum. The 2026 notes are subject to interest rate adjustments if either Moody’s or S&P downgrades (or downgrades and subsequently upgrades) the credit rating assigned to the 2026 notes. On any date prior to July 1, 2026, the company may redeem some or all of the notes at a price equal to the greater of (1) 100% of the principal amount of the notes redeemed and (2) a “make-whole” amount plus, in each case, accrued and unpaid interest. The make-whole amount is equal to the sum of the present values of the remaining scheduled payments of principal and interest on the 2026 notes to be redeemed that would be due if such notes matured July 1, 2026 (exclusive of interest accrued to, but not including, the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the treasury rate (as defined in the indenture governing the notes), plus 30 basis points, plus in each case accrued and unpaid interest. At any time on or after July 1, 2026, the company may redeem some or all of the 2026 notes at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest. If the company experiences a “change of control triggering event” (which involves a change of control of the company and related rating of the notes below investment grade), it is required to offer to purchase the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest thereon unless the company exercised its option to redeem the notes in whole. The 2026 notes are also subject to customary restrictive covenants, including certain limitations on liens and sale and leaseback transactions.

The face value of the 2026 notes is $400.0 million. There was a debt discount representing the difference between the net proceeds, after expenses, received upon issuance of debt and the amount repayable at its maturity. The company also paid issuance costs (including underwriting fees and legal fees) on the 2026 notes. Debt issuance costs and the debt discount are being amortized to interest expense over the term of the 2026 notes. As of January 1, 2022, the company was in compliance with all restrictive covenants under the indenture governing the 2026 notes. The table below presents the debt discount, underwriting fees and the legal and other fees for issuing the 2026 notes (amounts in thousands):

Total fees for 2026 notes		Amount at Issuance
Debt discount	$	2,108
Underwriting, legal, and other fees		3,634
Total fees	$	5,742

Accounts Receivable Securitization Facility. On July 17, 2013, the company entered into an accounts receivable securitization facility (the “AR facility”). The company has amended the AR facility nine times since execution, most recently on September 23, 2021. These amendments include provisions which (i) increased the revolving commitments under the AR facility to $200.0 million from $150.0 million, (ii) added a leverage pricing grid, (iii) added an additional bank to the lending group, (iv) made certain other conforming changes, (v) removed a bank from the lending group, and (vi) most recently, extended the term by one additional year to September 27, 2023. The amendment that added the additional bank was accounted for as an extinguishment of the debt. The remaining amendments were accounted for as modifications.

Under the AR facility, a wholly-owned, bankruptcy-remote subsidiary purchases, on an ongoing basis, substantially all trade receivables. As borrowings are made under the AR facility, the subsidiary pledges the receivables as collateral. In the event of liquidation of the subsidiary, its creditors would be entitled to satisfy their claims from the subsidiary’s pledged receivables prior to distributions of collections to the company. We include the subsidiary in our Consolidated Financial Statements. The AR facility contains certain customary representations and warranties, affirmative and negative covenants, and events of default. Restrictive covenants require adherence to company credit and collections policies, depository account control agreements, and certain other customary restrictions including limitations to consolidations, mergers, and liens. As of January 1, 2022 and January 2, 2021, respectively, the company was in compliance with all restrictive covenants under the AR facility. Amounts available for withdrawal under the AR facility are determined as the lesser of the total commitments and a formula derived amount based on qualifying trade receivables.

Optional principal repayments may be made at any time without premium or penalty. Interest is due two days after our reporting periods end in arrears on the outstanding borrowings and is computed as the cost of funds rate plus an applicable margin of 85 basis points. An unused fee of 35 basis points is applicable on the unused commitment at each reporting period. Financing costs paid at inception of the AR facility and at the time amendments are executed are being amortized over the life of the AR facility. The company incurred $0.2 million in financing costs during the third quarter of Fiscal 2021 for the ninth amendment. The balance of unamortized financing costs was $0.3 million on January 1, 2022 and $0.3 million on January 2, 2021 and are recorded in other assets on the Consolidated Balance Sheets.

The table below presents the borrowings and repayments under the AR facility during Fiscal 2021:

	Amount (thousands)
Balance as of January 2, 2021	$ 114,000
Borrowings	—
Payments	(114,000)
Balance as of January 1, 2022	$ —

The table below presents the net amount available for working capital and general corporate purposes under the AR facility as of January 1, 2022:

	Amount (thousands)
Gross amount available	$ 194,500
Outstanding	—
Available for withdrawal	$ 194,500

Amounts available for withdrawal under the AR facility are determined as the lesser of the total commitments and a formula derived amount based on qualifying trade receivables. The table below presents the highest and lowest outstanding balance under the AR facility during Fiscal 2021:

	Amount (thousands)
High balance	$ 114,000
Low balance	$ —

2022 Notes. On April 3, 2012, the company issued $400.0 million of senior notes (the "2022 notes"). Prior to the early redemption discussed below, the company paid semiannual interest on the notes on each April 1 and October 1, beginning on October 1, 2012, and the notes would have matured on April 1, 2022. The notes beared interest at 4.375% per annum. On any date prior to January 1, 2022, the company could have redeemed some or all of the notes at a price equal to the greater of (1) 100% of the principal amount of the notes redeemed and (2) a "make-whole" amount plus, in each case, accrued and unpaid interest. The make-whole amount is equal to the sum of the present values of the remaining scheduled payments of principal thereof (not including any interest accrued thereon to, but not including, the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the treasury rate (as defined in the indenture governing the notes), plus 35 basis points, plus in each case, unpaid interest accrued thereon to, but not including, the date of redemption. At any time on or after January 1, 2022, the company could have redeemed some or all of the notes at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest. If the company experienced a "change of control triggering event" (which involves a change of control of the company and related rating of the notes below investment grade), it was required to offer to purchase the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest thereon unless the company exercised its option to redeem the notes in whole. The notes were also subject to customary restrictive covenants, including certain limitations on liens and sale and leaseback transactions.

On April 8, 2021, the company completed the early redemption of the 2022 notes with proceeds received from the issuance of the 2031 notes on March 9, 2021. We recognized a loss on extinguishment of debt of $16.1 million comprised of a make-whole cash payment of $15.4 million and the write-off of unamortized debt discount and debt issuance costs of $0.7 million.

The face value of the 2022 notes was $400.0 million and the debt discount on the 2022 notes at issuance was $1.0 million. The company paid issuance costs (including underwriting fees and legal fees) on the 2022 notes of $3.9 million. The issuance costs and the debt discount were amortized to interest expense over the term of the 2022 notes.

Credit Facility. The company is party to an amended and restated credit agreement, dated as of October 24, 2003, with the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent, the swingline lender and issuing lender (as amended, restated, modified or supplemented from time to time, the "amended and restated credit agreement"). The company has amended the amended and restated credit agreement seven times since execution, most recently on July 30, 2021 (the "seventh amendment"). Under the amended and restated credit agreement, our credit facility is a five-year, $500.0 million senior unsecured revolving loan facility with the following terms and conditions: (i) a maturity date of July 30, 2026; (ii) an applicable margin for revolving loans maintained as (1) base rate loans and swingline loans with a range of 0.00% to 0.525% and (2) Eurodollar loans with a range of 0.815% to 1.525%, in each case, based on the more favorable (to the company) of (x) the leverage ratio of the company and its subsidiaries and (y) the company's debt rating; (iii) an applicable facility fee with a range of 0.06% to 0.225%, due quarterly on all commitments under the amended and restated credit agreement, based on the more favorable (to the company) of (x) the leverage ratio of the company and its subsidiaries and (y) the company's debt rating; and (iv) a maximum leverage ratio covenant to permit the company, at its option, in connection with certain acquisitions and investments and subject to the terms and conditions provided in the amended and restated credit agreement, to increase the maximum ratio permitted thereunder on one or more occasions to 4.00 to 1.00 for a period of four consecutive fiscal quarters, including and/or immediately following the fiscal quarter in which such acquisitions or investments were completed (the "covenant holiday"), provided that each additional covenant holiday will not be available to the company until it has achieved and maintained a leverage ratio of at least 3.75 to 1.00 and has been complied with for at least two fiscal quarters. Additionally, the seventh amendment to the amended and restated credit agreement appointed Deutsche Bank Trust Company Americas as successor administrative agent to Deutsche Bank AG New York Branch and added provisions to address LIBOR transition.

In addition, the credit facility contains a provision that permits the company to request up to $200.0 million in additional revolving commitments, for a total of up to $700.0 million, subject to the satisfaction of certain conditions. Proceeds from the credit facility may be used for working capital and general corporate purposes, including capital expenditures, acquisition financing, refinancing of indebtedness, dividends 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 amended credit facility and can meet its presently foreseeable financial requirements. As of January 1, 2022 and January 2, 2021, respectively, the company was in compliance with all restrictive covenants under the credit facility.

Financing costs paid at inception of the credit facility and at the time amendments are executed are being amortized over the life of the credit facility. The company incurred $1.1 million in financing costs during the third quarter of Fiscal 2021 for the seventh amendment.

Amounts outstanding under the credit facility vary daily. Changes in the gross borrowings and repayments can be caused by cash flow activity from operations, capital expenditures, acquisitions, dividends, share repurchases, and tax payments, as well as derivative transactions which are part of the company's overall risk management strategy as discussed in Note 10, *Derivative Financial Instruments*. The table below presents the borrowings and repayments under the credit facility during Fiscal 2021:

	Amount (thousands)
Balance as of January 2, 2021	$ 50,000
Borrowings	10,000
Payments	(60,000)
Balance as of January 1, 2022	$ —

The table below presents the net amount available under the credit facility as of January 1, 2022:

	Amount (thousands)
Gross amount available	$ 500,000
Outstanding	—
Letters of credit	(8,400)
Available for withdrawal	$ 491,600

The table below presents the highest and lowest outstanding balance under the credit facility during Fiscal 2021:

	Amount (thousands)
High balance	$ 50,000
Low balance	$ —

Aggregate debt maturities. Aggregate maturities of debt outstanding as of January 1, 2022, are as follows (excluding unamortized debt discount and issuance costs) (amounts in thousands):

2022	$ —
2023	—
2024	—
2025	—
2026	400,000
Thereafter	500,000
Total	$ 900,000

Debt issuance costs and debt discount. The table below reconciles the debt issuance costs and debt discounts to the net carrying value of each of our debt obligations (excluding line-of-credit arrangements) at January 1, 2022 (amounts in thousands):

	Face Value	Debt issuance costs and debt discount	Net carrying value
2031 notes	$ 500,000	$ 6,667	$ 493,333
2026 notes	400,000	2,724	397,276
Total	$ 900,000	$ 9,391	$ 890,609

The table below reconciles the debt issuance costs and debt discounts to the net carrying value of each of our debt obligations (excluding line-of-credit arrangements) at January 2, 2021 (amounts in thousands):

	Face Value	Debt issuance costs and debt discount	Net carrying value
2026 notes	$ 400,000	$ 3,295	$ 396,705
2022 notes	400,000	602	399,398
Total	$ 800,000	$ 3,897	$ 796,103

Deferred Compensation

The Executive Deferred Compensation Plan ("EDCP") consists of unsecured general obligations of the company to pay the deferred compensation of, and our contributions to, participants in the EDCP. The obligations will rank equally with our other unsecured and unsubordinated indebtedness payable from the company's general assets.

The company's directors and certain key members of management are eligible to participate in the EDCP. Directors may elect to defer all or any portion of their annual retainer fee and meeting fees. Deferral elections by directors must be made prior to the beginning of each year and are thereafter irrevocable. Eligible employees may elect to defer up to 75% of their base salaries, and up to 100% of any cash bonuses and other compensation through December 31, 2015. Effective January 1, 2016, employees may elect to defer up to 75% of their base salaries, any cash bonuses, and other compensation. Deferral elections by eligible executives must be made prior to the beginning of each year and are thereafter irrevocable during that year. The portion of the participant's compensation that is deferred depends on the participant's election in effect with respect to his or her elective contributions under the EDCP.

The amounts outstanding at January 1, 2022 and January 2, 2021 were as follows (amounts in thousands):

	January 1, 2022	January 2, 2021
Deferral elections outstanding	$ 21,319	$ 18,308
Current portion of deferral elections	(1,131)	(1,634)
Long-term portion of deferral elections	$ 20,188	$ 16,674

Guarantees and Indemnification Obligations

The company has provided various representations, warranties, and other standard indemnifications in various agreements with customers, suppliers, and other parties as well as in agreements to sell business assets or lease facilities. In general, these provisions indemnify the counterparty for matters such as breaches of representations and warranties, certain environmental conditions and tax matters, and, in the context of sales of business assets, any liabilities arising prior to the closing of the transactions. Non-performance under a contract could trigger an obligation of the company. The ultimate effect on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to the final outcome of any potential claims.

No material guarantees or indemnifications have been entered into by the company through January 1, 2022.

Note 15. Variable Interest Entities

Distribution rights agreement VIE analysis

The incorporated IDPs qualify as VIEs. The IDPs who are formed as sole proprietorships are excluded from the following VIE accounting analysis and discussion.

Incorporated IDPs acquire distribution rights and enter into a contract with the company to sell the company's products in the IDPs' defined geographic territory. The incorporated IDPs have the option to finance the acquisition of their distribution rights with the company. They can also pay cash or obtain external financing at the time they acquire the distribution rights. The combination of the company's loans to the incorporated IDPs and the ongoing distributor arrangements with the incorporated IDPs provide a level of funding to the equity owners of the various incorporated IDPs that would not otherwise be available. As of January 1, 2022 and January 2, 2021, there was $159.5 million and $171.1 million, respectively, in gross distribution rights notes receivable outstanding from incorporated IDPs.

The company is not considered to be the primary beneficiary of the VIEs because the company does not (i) have the ability to direct the significant activities of the VIEs that would affect their ability to operate their respective businesses and (ii) provide any implicit or explicit guarantees or other financial support to the VIEs, other than the financing described above, for specific return or performance benchmarks. The activities controlled by the incorporated IDPs that are deemed to most significantly impact the ultimate success of the incorporated IDP entities relate to those decisions inherent in operating the distribution business in the territory, including acquiring trucks and trailers, managing fuel costs, employee matters and other strategic decisions. In addition, we do not provide, nor do we intend to provide, financial or other support to the IDP. The IDPs are responsible for the operations of their respective territories.

The company's maximum contractual exposure to loss for the incorporated IDP relates to the distributor rights note receivable for the portion of the territory the incorporated IDPs financed at the time they acquired the distribution rights. The incorporated IDPs remit payment on their distributor rights note receivable each week during the settlement process of their weekly activity. The company will operate a territory on behalf of an incorporated IDP in situations where the IDP has abandoned its distribution rights. Any remaining balance outstanding on the distribution rights notes receivable is relieved once the distribution rights have been sold on the IDPs behalf. The company's collateral from the territory distribution rights mitigates the potential losses.

Note 16. 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 distribution rights by IDPs. These notes receivable are recorded in the Consolidated Balance Sheets at carrying value, which represents the closest approximation of fair value. 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 distribution rights notes is the prevailing market rate at which similar loans would be made to IDPs with similar credit ratings and for the same maturities. However, the company financed approximately 3,700 and 4,000 IDPs' distribution rights as of January 1, 2022 and January 2, 2021, respectively, all with varied financial histories and credit risks. Considering the diversity of credit risks among the IDPs, the company has no method to accurately determine a market interest rate to apply to the notes. The distribution rights are generally financed for up to ten years and the distribution rights notes are collateralized by the IDPs' distribution rights. The company maintains a wholly-owned subsidiary to assist in financing the distribution rights purchase activities if requested by new IDPs, using the distribution rights and certain associated assets as collateral. These notes receivable earn interest at a fixed rate.

At January 1, 2022 and January 2, 2021, respectively, the carrying value of the distribution rights notes receivable was as follows (amounts in thousands):

	January 1, 2022	January 2, 2021
Distribution rights notes receivable	$ 183,403	$ 204,839
Current portion recorded in accounts and notes receivable, net	(29,093)	(28,427)
Long-term portion of distribution rights notes receivable	$ 154,310	$ 176,412

During Fiscal 2021, the company recorded a reserve of $1.9 million for the distributor notes receivable related to a legal settlement. See Note 22, *Commitments and contingencies,* of Notes to Consolidated Financial Statements of this Form 10-K for additional information. At January 2, 2021, the company evaluated the collectability of the distribution rights notes receivable and determined that a reserve was not necessary. Payments on these notes are collected by the company weekly in conjunction with the IDP settlement process.

The fair value of the company's variable rate debt at January 1, 2022 approximates the recorded value. The fair value of the company's notes, as discussed in Note 14, *Debt and Other Commitments*, are estimated using yields obtained from independent pricing sources for similar types of borrowing arrangements and are considered a Level 2 valuation. The fair value of the notes are presented in the table below (amounts in thousands, except level classification):

	Carrying Value	Fair Value	Level
2031 notes	$ 493,333	$ 494,200	2
2026 notes	$ 397,276	$ 429,216	2

For fair value disclosure information about our derivative assets and liabilities see Note 10, *Derivative Financial Instruments*. For fair value disclosure information about our pension plan net assets see Note 20, *Postretirement Plans.*

Note 17. Stockholders' Equity

Flowers Foods' articles of incorporation provide that its authorized capital consist of 500,000,000 shares of common stock having a par value of $0.01 per share and 1,000,000 shares of preferred stock. The preferred stock of which (a) 200,000 shares have been designated by the Board of Directors as Series A Junior Participating Preferred Stock, having a par value per share of $100 and (b) 800,000 shares of preferred stock, having a par value per share of $0.01, have not been designated by the Board of Directors. No shares of preferred stock have been issued by Flowers Foods.

Common Stock

The holders of Flowers Foods common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Subject to preferential rights of any issued and outstanding preferred stock, including the Series A Preferred Stock, holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors of the company out of funds legally available. In the event of a liquidation, dissolution, or winding-up of the company, holders of common stock are entitled to share ratably in all assets of the company, if any, remaining after payment of liabilities and the liquidation preferences of any issued and outstanding preferred stock, including the Series A Preferred Stock. Holders of common stock have no preemptive rights, no cumulative voting rights, and no rights to convert their shares of common stock into any other securities of the company or any other person.

Preferred Stock

The Board of Directors has the authority to issue up to 1,000,000 shares of preferred stock in one or more series and to fix the designations, relative powers, preferences, rights, qualifications, limitations, and restrictions of all shares of each such series, including without limitation, dividend rates, conversion rights, voting rights, redemption and sinking fund provisions, liquidation preferences, and the number of shares constituting each such series, without any further vote or action by the holders of our common stock. Although the Board of Directors does not presently intend to do so, it could issue shares of preferred stock, with rights that could adversely affect the voting power and other rights of holders of our common stock without obtaining the approval of our shareholders. In addition, the issuance of preferred shares could delay or prevent a change in control of the company without further action by our shareholders.

Stock Repurchase Plan

Our Board of Directors has approved a plan (on December 19, 2002) that currently authorizes share repurchases of up to 74.6 million shares of the company's common stock. As of January 1, 2022, 5.8 million shares remained available for repurchase under the existing authorization. Under the plan, the company may repurchase its common stock in open market or privately negotiated transactions or under an accelerated repurchase program at such times and at such prices as determined to be in the company's best interest.

The table below presents the shares repurchased under the Stock Repurchase Plan during our Fiscal 2021 (amounts in thousands except shares purchased):

Fiscal 2021 Quarter	Total Number of Shares Purchased	Total Cost of Shares Purchased
For the quarter ended April 24, 2021	46,618	$ 1,058
For the quarter ended July 17, 2021	—	$ —
For the quarter ended October 9, 2021	360,222	$ 8,452
For the quarter ended January 1, 2022	—	$ —
Total	406,840	$ 9,510

As of January 1, 2022, 68.8 million shares at a cost of $652.9 million have been purchased since the inception of this plan.

Dividends

During Fiscal 2021, 2020, and 2019, the company paid the following dividends, excluding dividends on vested stock-based compensation awards discussed in Note 18, *Stock-Based Compensation*, below (amounts in thousands except per share data):

	Dividends paid	Dividends paid per share
Fiscal 2021	$ 175,669	$ 0.8300
Fiscal 2020	$ 167,161	$ 0.7900
Fiscal 2019	$ 158,626	$ 0.7500

Note 18. Stock-Based Compensation

On March 5, 2014, our Board of Directors approved and adopted the 2014 Omnibus Equity and Incentive Compensation Plan ("Omnibus Plan"). The Omnibus Plan was approved by our shareholders on May 21, 2014. The Omnibus Plan authorizes the compensation committee of the Board of Directors to provide equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, dividend equivalents and other awards for the purpose of providing our officers, key employees, and non-employee directors' incentives and rewards for performance. The Omnibus Plan replaced the Flowers Foods' 2001 Equity and Performance Incentive Plan, as amended and restated as of April 1, 2009 ("EPIP"), the Stock Appreciation Rights Plan, and the Annual Executive Bonus Plan. All outstanding equity awards that were made under the EPIP will continue to be governed by the EPIP; however, all equity awards granted after May 21, 2014 are governed by the Omnibus Plan. No additional awards will be issued under the EPIP. Awards granted under the Omnibus Plan are limited to the authorized amount of 8,000,000 shares.

The following is a summary of stock options, restricted stock, and deferred stock outstanding under the plans described above. Information relating to the company's stock appreciation rights, which were issued under a separate stock appreciation right plan, is also described below.

Performance-Contingent Restricted Stock Awards

Performance-Contingent Total Shareholder Return Shares ("TSR Shares")

Since 2012, certain key employees have been granted performance-contingent restricted stock under the EPIP and the Omnibus Plan in the form of TSR Shares. Awards granted prior to Fiscal 2019 vested approximately two years from the date of grant (after the filing of the company's Annual Report on Form 10-K) while the awards granted during Fiscal 2019, 2020 and 2021 vest approximately three years from the date of grant. These shares become non-forfeitable if, and to the extent that, on that date the vesting conditions are satisfied. The total shareholder return ("TSR") is the percent change in the company's stock price over the measurement period plus the dividends paid to shareholders. The performance payout is calculated at the end of each of the last four quarters (averaged) in the measurement period. Once the TSR is determined for the company ("Company TSR"), it is compared to the

TSR of our food company peers ("Peer Group TSR"). The Company TSR compared to the Peer Group TSR will determine the payout as set forth below (the "TSR Modifier"):

Percentile	Payout as % of Target
90th	200%
70th	150%
50th	100%
30th	50%
Below 30th	0%

For performance between the levels described above, the degree of vesting is interpolated on a linear basis. The table below presents the payout percentage for each of the TSR awards:

Award	Fiscal year vested	Payout (%)
2017 award	Fiscal 2019	153.0

The TSR shares vest immediately if the grantee dies or becomes disabled. However, if the grantee retires at age 65 (or age 55 with at least 10 years of service with the company) or later, on the normal vesting date the grantee will receive a pro-rated number of shares based upon the retirement date and measured at the actual performance for the entire performance period. In addition, if the company undergoes a change in control, the TSR shares will immediately vest at the target level, provided that if 12 months of the performance period have been completed, vesting will be determined based on Company TSR as of the date of the change in control without application of four-quarter averaging. During the vesting period, the grantee has none of the rights of a shareholder. Dividends declared during the vesting period will accrue and will be paid at vesting on the shares that ultimately vest. The fair value estimate was determined using a *Monte Carlo* simulation model, which utilizes multiple input variables to estimate 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) TSR 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' TSR. The inputs are based on historical capital market data. The 2019 TSR award is expected to payout at 137%.

On May 23, 2019, the company's CEO received an award of TSR Shares that brings his total grant equal to the CEO's target award ("promotion award"). This grant is measured under the same guidelines as the December 30, 2018 grant of TSR Shares described above. The company's former CEO forfeited 112,840 TSR shares at his retirement on May 23, 2019.

The following performance-contingent TSR Shares have been granted under the Omnibus Plan and have service period remaining (amounts in thousands, except price data):

Grant Date	Shares Granted	Vesting Date	Fair Value per Share
12/30/2018	440	3/1/2022	$ 21.58
5/23/2019	11	3/1/2022	$ 27.23
7/14/2019	5	3/1/2022	$ 23.32
10/6/2019	2	3/1/2022	$ 22.52
12/29/2019	331	2/28/2023	$ 25.00
4/19/2020	8	2/28/2023	$ 23.14
07/12/2020	2	2/28/2023	$ 21.97
10/4/2020	5	2/28/2023	$ 24.63
01/03/2021	365	3/1/2024	$ 26.75
10/10/2021	18	3/1/2024	$ 24.47

As of January 1, 2022, there was $10.0 million of total unrecognized compensation cost related to nonvested TSR Shares granted under the Omnibus Plan. That cost is expected to be recognized over a weighted-average period of 1.81 years.

Performance-Contingent Return on Invested Capital Shares ("ROIC Shares")

Since 2012, certain key employees have been granted performance-contingent restricted stock under the EPIP and the Omnibus Plan in the form of ROIC Shares. Awards granted prior to Fiscal 2019 vested approximately two years from the date of grant (after the filing of the company's Annual Report on Form 10-K) while the awards granted during Fiscal 2019, 2020 and 2021 vest approximately three years from the date of grant. These shares become non-forfeitable if, and to the extent that, on that date the vesting conditions are satisfied. Return on Invested Capital is calculated by dividing our profit, as defined, by the invested capital ("ROIC"). Generally, the performance condition requires the company's average ROIC to exceed its average weighted cost of capital ("WACC") by between 1.75 to 4.75 percentage points (the "ROI Target") over the three fiscal year performance period. If the lowest ROI Target is not met, the awards are forfeited. The shares can be earned based on a range from 0% to 125% of target as defined below (the "ROIC Modifier"):

- 0% payout if ROIC exceeds WACC by less than 1.75 percentage points;
- ROIC above WACC by 1.75 percentage points pays 50% of ROI Target; or
- ROIC above WACC by 3.75 percentage points pays 100% of ROI Target; or
- ROIC above WACC by 4.75 percentage points pays 125% of ROI Target.

For performance between the levels described above, the degree of vesting is interpolated on a linear basis. The table below presents the payout percentage for each of the ROIC awards:

Award	Fiscal year vested	Payout (%)
2017 award	Fiscal 2019	75

The ROIC Shares vest immediately if the grantee dies or becomes disabled. However, if the grantee retires at age 65 (or age 55 with at least 10 years of service with the company) or later, on the normal vesting date the grantee will receive a pro-rated number of shares based upon the retirement date and actual performance for the entire performance period. In addition, if the company undergoes a change in control, the ROIC Shares will immediately vest at the target level. During the vesting period, the grantee has none of the rights of a shareholder. Dividends declared during the vesting period will accrue and will be paid at vesting on the shares that ultimately vest. The fair value of this type of award is equal to the stock price on the grant date. Since these awards have a performance condition feature the expense associated with these awards may change depending on the expected ROI Target attained at each reporting period. The 2019 award is being expensed at our current estimated payout percentage of 125% of the ROI target, and the 2020 and 2021 awards are being expensed at 100% of the ROI target.

On May 23, 2019, the company's CEO received a promotion award of ROIC Shares. This grant is measured under the same guidelines as the December 30, 2018 grant of ROIC Shares described above. The company's former CEO forfeited 112,840 ROIC shares at his retirement on May 23, 2019.

The following performance-contingent ROIC Shares have been granted under the Omnibus Plan and have service period remaining (amounts in thousands, except price data):

Grant Date	Shares Granted	Vesting Date	Fair Value per Share
12/30/2018	440	3/1/2022	$ 18.29
5/23/2019	11	3/1/2022	$ 23.08
7/14/2019	5	3/1/2022	$ 23.32
10/6/2019	2	3/1/2022	$ 22.52
12/29/2019	331	2/28/2023	$ 21.74
4/19/2020	8	2/28/2023	$ 23.14
07/12/2020	2	2/28/2023	$ 21.97
10/4/2020	5	2/28/2023	$ 24.63
01/03/2021	365	3/1/2024	$ 22.63
10/10/2021	18	3/1/2024	$ 24.47

As of January 1, 2022, there was $8.7 million of total unrecognized compensation cost related to nonvested ROIC Shares granted under the Omnibus Plan. This cost is expected to be recognized over a weighted-average period of 1.79 years.

Performance-Contingent Restricted Stock Summary

The table below presents the TSR Modifier share adjustment, ROIC Modifier share adjustment, accumulated dividends on vested shares, and the tax windfall/shortfall at vesting of the performance-contingent restricted stock awards (amounts in thousands except for share data):

Award granted	Fiscal year vested	TSR Modifier increase shares	ROIC Modifier (decrease) shares	Dividends at vesting (thousands)	Tax benefit	Fair value at vesting
2017	2019	205,686	(97,131)	$ 1,219	$ 936	$ 18,570

A summary of the status of all of the company's nonvested shares for performance-contingent restricted stock (including the TSR Shares and the ROIC Shares) for Fiscal 2021, 2020, and 2019 is set forth below (amounts in thousands, except price data):

	Fiscal 2021		Fiscal 2020		Fiscal 2019	
	Number of Shares	Weighted Average Fair Value	Number of Shares	Weighted Average Fair Value	Number of Shares	Weighted Average Fair Value
Balance at beginning of year	1,264	$ 21.85	662	$ 20.16	779	$ 21.64
Initial grant	766	$ 24.66	693	$ 23.37	917	$ 20.10
Vested	—	$ —	—	$ —	(885)	$ 22.21
Grant reduction for not achieving the ROIC modifier	—	$ —	—	$ —	(97)	$ 19.97
Grant increase (reduction) for not achieving the TSR modifier	—	$ —	—	$ —	206	$ 23.31
Forfeitures	(58)	$ 23.27	(91)	$ 21.26	(258)	$ 20.18
Balance at end of year	1,972	$ 22.89	1,264	$ 21.85	662	$ 20.16

As of January 1, 2022, there was $18.7 million of total unrecognized compensation cost related to nonvested restricted stock granted under the Omnibus Plan. This cost is expected to be recognized over a weighted-average period of 1.80 years.

Time-Based Restricted Stock Units

Certain key employees have been granted time-based restricted stock units ("TBRSU Shares"). These awards vest on the fifth of January each year in equal installments over a three-year period beginning in Fiscal 2020. Dividends earned on shares are held by the company during the vesting period and paid in cash when the awards vest and shares are distributed.

On May 23, 2019, the company's CEO was granted TBRSU Shares of approximately $1.0 million pursuant to the Omnibus Plan. This award will vest 100% on the fourth anniversary of the date of grant provided the CEO remains employed by the company during this period. Vesting will also occur in the event of the CEO's death or disability, but not his retirement if prior to the fourth anniversary of the grant date. Dividends will accrue on the award and will be paid to the CEO on the vesting date for all shares that vest. There were 43,330 shares issued for this award at a fair value of $23.08 per share.

The following TBRSU Shares have been granted under the Omnibus Plan and have service periods remaining (amounts in thousands, except price data):

Grant Date	Shares Granted	Vesting Date	Fair Value per Share
12/30/2018	244	Equally over 3 years	$ 18.29
5/23/2019	43	5/23/2023	$ 23.08
12/29/2019	220	Equally over 3 years	$ 21.74
1/03/2021	256	Equally over 3 years	$ 22.63
10/10/2021	6	Equally over 3 years	$ 24.79

The TBRSU Shares activity for Fiscal 2021, 2020 and Fiscal 2019 is set forth below (amounts in thousands, except price data):

	Fiscal 2021			Fiscal 2020			Fiscal 2019		
	Number of Shares		Weighted Average Fair Value	Number of Shares		Weighted Average Fair Value	Number of Shares		Weighted Average Fair Value
Nonvested shares at beginning of year	387	$	20.64	270	$	19.06	—	$	—
Granted	262	$	22.68	220	$	21.74	288	$	19.01
Vested	(137)	$	19.98	(74)	$	18.29			
Forfeitures	(20)	$	21.56	(29)	$	20.14	(18)	$	18.29
Nonvested shares at end of year	492	$	21.87	387	$	20.64	270	$	19.06

Deferred Stock

Non-employee directors may convert their annual board retainers into deferred stock equal in value to 100% of the cash payments directors would otherwise receive and the vesting period is a one-year period to match the period of time that cash would have been received if no conversion existed. Accumulated dividends are paid upon delivery of the shares. During Fiscal 2021, non-employee directors elected to receive, and were granted, an aggregate grant of 2,209 common shares for board retainer deferrals pursuant to the Omnibus Plan which vested during the fourth quarter of Fiscal 2021.

Non-employee directors also receive annual grants of deferred stock. This deferred stock vests over one year from the grant date. During Fiscal 2020, non-employee directors were granted an aggregate of 51,840 shares, of which 17,100 shares were deferred, for their annual grant pursuant to the Omnibus Plan that vested during Fiscal 2021. During the second quarter of Fiscal 2021, non-employee directors received 66,550 shares for their annual grant pursuant to the Omnibus Plan. Additionally, during Fiscal 2021, non-employee directors received 13,491 shares of previously deferred award grants. 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 deferred stock over the vesting period.

The deferred and restricted stock activity for Fiscal 2021, 2020, and 2019 is set forth below (amounts in thousands, except price data):

	Fiscal 2021			Fiscal 2020			Fiscal 2019		
	Number of Shares		Weighted Average Fair Value	Number of Shares		Weighted Average Fair Value	Number of Shares		Weighted Average Fair Value
Nonvested shares at beginning of year	52	$	23.21	49	$	22.31	66	$	19.93
Granted	69	$	23.96	54	$	23.15	49	$	22.31
Vested	(54)	$	23.19	(51)	$	22.28	(66)	$	19.93
Nonvested shares at end of year	67	$	24.00	52	$	23.21	49	$	22.31
Vested and deferred shares at end of year (1)	206			198			197		

(1) The vested and deferred shares at the end of the year include 89,949 shares granted and deferred under the EPIP for Fiscal 2021, 2020 and 2019.

As of January 1, 2022, there was $0.6 million of total unrecognized compensation cost related to deferred and restricted stock awards. This cost is expected to be recognized over a weighted-average period of 0.40 years. The intrinsic value of deferred stock awards that vested during Fiscal 2021 was $1.5 million. There was an immaterial tax windfall on the exercise of deferred share awards during fiscal 2021.

Share-Based Payments Compensation Expense Summary

The following table summarizes the company's stock-based compensation expense, all of which was recognized in selling, distribution, and administrative expense, for Fiscal 2021, 2020, and 2019 (amounts in thousands):

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Performance-contingent restricted stock awards	$ 15,061	$ 8,656	$ 4,767
TBRSU shares	4,747	3,039	1,520
Deferred stock awards	1,535	1,160	1,143
Total stock-based compensation expense	$ 21,343	$ 12,855	$ 7,430

Note 19. Earnings Per Share

The following is a reconciliation of net income and weighted average shares for calculating basic and diluted earnings per common share for Fiscal 2021, 2020, and 2019 (amounts in thousands, except per share data):

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Net income	$ 206,187	$ 152,318	$ 164,538
Basic Earnings Per Common Share:			
Basic weighted average shares outstanding per common share	211,840	211,782	211,606
Basic earnings per common share	$ 0.97	$ 0.72	$ 0.78
Diluted Earnings Per Common Share:			
Basic weighted average shares outstanding per common share	211,840	211,782	211,606
Add: Shares of common stock assumed issued upon exercise of stock options, vesting of performance-contingent restricted stock and deferred stock	1,193	563	368
Diluted weighted average shares outstanding per common share	213,033	212,345	211,974
Diluted earnings per common share	$ 0.97	$ 0.72	$ 0.78

There were no anti-dilutive shares during Fiscal 2021 and 6,234 anti-dilutive shares during Fiscal 2020. There were 11,030 anti-dilutive shares for Fiscal 2019.

Note 20. Postretirement Plans

The following summarizes the company's balance sheet related pension and other postretirement benefit plan accounts at January 1, 2022 and January 2, 2021 (amounts in thousands):

	January 1, 2022	January 2, 2021
Noncurrent benefit asset	$ 1,281	$ —
Current benefit liability	$ 804	$ 874
Noncurrent benefit liability	$ 7,249	$ 10,049
AOCI, net of tax	$ (3,456)	$ (6,648)

The company made a contribution of $2.5 million and $7.6 million to the Flowers Foods, Inc. Retirement Plan No. 2 ("Plan No. 2") during the third quarter of Fiscal 2019 and Fiscal 2020, respectively. There were no contributions to the Flowers Foods, Inc. Plan No. 1 ("Plan No. 1") during Fiscal 2019 or Fiscal 2020, and there were no contributions made by the company to any plan during Fiscal 2021.

Pension Plans

The company maintains a trusted, noncontributory defined benefit pension plan that covers a small number of certain union employees. The benefits in this plan are based on years of service and the employee's career earnings. This qualified plan is 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") and the Pension Protection Act of 2006 ("PPA"). Benefits under the company's largest pension plan were fully terminated and transferred to an insurance company in the form of a nonparticipating group annuity contract during the first quarter of Fiscal 2020. No cash contributions were required to support the transaction, but the company recorded non-cash settlement and curtailment charges of $108.8 million in Fiscal 2020.

The company recognizes settlement accounting charges, which accelerates recognition of a plan's unrecognized net gain or loss, when the ongoing lump sum payments from the plan exceed the sum of the plan's service cost and interest cost. During the fourth quarter of Fiscal 2021, the company determined it was probable a settlement would occur and paid lump sums that exceeded that threshold and, as a result, the company recorded a settlement charge of $0.4 million in the fourth quarter of Fiscal 2021.

The company uses a calendar year end for the measurement date since the plans are based on a calendar year and because it approximates the company's fiscal year end. As of December 31, 2021 and December 31, 2020, the assets of the qualified plans included certificates of deposit, marketable equity securities, mutual funds, corporate and government debt securities, other diversifying strategies and annuity contracts. The company expects pension cost of approximately $0.7 million for Fiscal 2022.

The net periodic pension cost (income) for the company's pension plans includes the following components for Fiscal 2021, 2020, and 2019 (amounts in thousands):

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Service cost	$ 971	$ 854	$ 703
Interest cost	758	2,108	11,930
Expected return on plan assets	(1,867)	(3,933)	(17,147)
Settlement loss	403	104,473	—
Curtailment loss	—	4,284	—
Amortization:			
Prior service cost	57	115	387
Actuarial loss	742	1,747	7,098
Net periodic pension cost (income)	1,064	109,648	2,971
Other changes in plan assets and benefit obligations recognized in OCI:			
Current year actuarial (gain) loss	(1,288)	(25,515)	11,277
Settlement loss	(403)	(104,473)	—
Curtailment loss	—	(4,284)	—
Amortization of prior service cost	(57)	(115)	(387)
Amortization of actuarial loss	(742)	(1,747)	(7,098)
Total recognized in OCI	(2,490)	(136,134)	3,792
Total recognized in net periodic (benefit) cost and OCI	$ (1,426)	$ (26,486)	$ 6,763

Actual return on plan assets for Fiscal 2021, 2020, and 2019 was $1.9 million, $15.8 million, and $51.8 million, respectively.

The funded status and the amounts recognized in the Consolidated Balance Sheets for the company's pension plans are as follows (amounts in thousands):

	January 1, 2022	January 2, 2021
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 37,650	$ 396,906
Service cost	971	854
Interest cost	758	2,108
Actuarial gain	(1,228)	(13,657)
Benefits paid	(1,662)	(7,762)
Settlements	(1,699)	(340,799)
Benefit obligation at end of year	$ 34,790	$ 37,650
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 34,750	$ 360,675
Actual return on plan assets	1,929	15,790
Employer contribution	271	7,871
Benefits paid	(1,662)	(7,762)
Transfer payments	—	(1,025)
Settlements	(1,699)	(340,799)
Fair value of plan assets at end of year	$ 33,589	$ 34,750
Funded status, end of year:		
Fair value of plan assets	$ 33,589	$ 34,750
Benefit obligations	(34,790)	(37,650)
Unfunded status and amount recognized at end of year	$ (1,201)	$ (2,900)
Amounts recognized in the balance sheet:		
Noncurrent asset	$ 1,281	$ —
Current liability	(258)	(259)
Noncurrent liability	(2,224)	(2,641)
Amount recognized at end of year	$ (1,201)	$ (2,900)
Amounts recognized in AOCI:		
Net actuarial loss before taxes	$ 7,913	$ 10,347
Prior service cost before taxes	198	255
Amount recognized at end of year	$ 8,111	$ 10,602
Accumulated benefit obligation at end of year	$ 32,950	$ 36,104

The actuarial gain/(loss) on defined benefit obligations of the employer due to experience, including any assumption changes, different from assumed, and the reasons for such (gain)/loss, can be found in the table below for Fiscal 2021, 2020 and 2019 (amounts in thousands).

	Amount of (Gain)/Loss on Defined Benefit Obligation	Reasons for (Gain)/Loss
Fiscal 2021 (1)	$ (1,228)	Gain from increase in general level of interest rates used to measure defined benefit plan obligations (approximately 30 basis points); Loss from change in mortality assumption scale from MP-2020 to MP-2021.
Fiscal 2020 (1)	$ 3,718	Loss from decrease in general level of interest rates used to measure defined benefit plan obligations (approximately 60 basis points); Gain from change in mortality assumption scale from MP-2019 to MP-2020.
Fiscal 2019	$ 45,979	Loss from decrease in general level of interest rates used to measure defined benefit plan obligations (approximately 90 basis points); Gain from change in mortality assumption to use PRI-2012 Mortality Tables and projection scale MP-2019, from the RP-2018 Mortality tables and projection scale MP-2018.

(1) Includes only losses from plans remaining on or after December 31, 2020.

Assumptions used in accounting for the company's pension plans at each of the respective fiscal years ending are as follows:

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Weighted average assumptions used to determine benefit obligations:			
Measurement date	12/31/2021	12/31/2020	12/31/2019
Discount rate	3.06%	2.78%	2.54%
Rate of compensation increase	3.00%	3.00%	3.00%
Weighted average assumptions used to determine net periodic benefit cost/(income):			
Measurement date	1/1/2021	1/1/2020	1/1/2019
Discount rate	2.78%	2.54%	3.41%
Expected return on plan assets	5.70%	4.97%	5.34%
Rate of compensation increase	3.00%	3.00%	3.00%

In developing the expected long-term rate of return on plan assets at each measurement date, the company considers the plan assets' historical actual returns, targeted asset allocations, and the anticipated future economic environment and long-term performance of individual asset classes, based on the company's investment strategy. While appropriate consideration is given to recent and historical investment performance, the assumption represents management's best estimate of the long-term prospective return. Further, pension costs do not include an explicit expense assumption, and therefore the return on assets rate reflects the long-term expected return, net of expenses.

Based on these factors the expected long-term rate of return assumption for Plan No. 2 was set at 5.9% for Fiscal 2022. The average annual return on the plan assets over the last 15 years (while the assets were collectively managed) was approximately 6.3% (net of expenses).

Plan Assets

The investment committee, which consists of certain members of management, establishes investment guidelines and strategies and regularly monitors the performance of the plans' assets. The investment committee is responsible for executing these strategies and investing the pension assets in accordance with ERISA and fiduciary standards. The investment objective of the pension plans is to preserve the plans' capital and maximize investment earnings within acceptable levels of risk and volatility. The investment committee meets on a regular basis with its investment advisors to review the performance of the plans' assets. Based upon performance and other measures and recommendations from its investment advisors, the investment committee rebalances the plans' assets to the targeted allocation when considered appropriate. The fair values of all of the company pension plan assets at December 31, 2021 and December 31, 2020, by asset class are as follows (amounts in thousands):

	Fair value of Pension Plan Assets as of December 31, 2021			
Asset Class	Quoted prices in active markets for identical assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Short term investments and cash	$ 453	$ —	$ —	$ 453
Common stocks:				
International common stocks	4,708	—	—	4,708
U.S. common stocks	8,177	—	—	8,177
Fixed income securities:				
U.S. government bonds	13,514	—	—	13,514
U.S. government agency bonds	—	—	—	—
U.S. corporate bonds	6,737	—	—	6,737
Pending transactions(*)	—	—	—	—
Accrued (expenses) income(*)	—	—	—	—
Total	$ 33,589	$ —	$ —	$ 33,589

Asset Class	Fair value of Pension Plan Assets as of December 31, 2020 Quoted prices in active markets for identical assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Short term investments and cash	$ 546	$ —	$ —	$ 546
Common stocks:				
International common stocks	5,223	—	—	5,223
U.S. common stocks	8,587	—	—	8,587
Fixed income securities:				
U.S. government bonds	14,577	—	—	14,577
U.S. government agency bonds	—	—	—	—
U.S. corporate bonds	5,877	—	—	5,877
International corporate bonds	—	—	—	—
Pending transactions(*)	—	—	—	—
Other assets and (liabilities)(*)	—	—	—	(35)
Accrued (expenses) income(*)	—	—	—	(25)
Total	$ 34,810	$ —	$ —	$ 34,750

(*) This class includes accrued interest, dividends, and amounts receivable from asset sales and amounts payable for asset purchases.

The company's investment policy includes various guidelines and procedures designed to ensure the plan's assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions.

The plan asset allocation as of the measurement dates December 31, 2021 and December 31, 2020, and target asset allocations for Fiscal 2022 are as follows for Plan No. 2:

Asset Category	Target Allocation 2022	Percentage of Plan Assets at the Measurement Date (As percent) 2021	2020
Equity securities	0-80%	38.0	40.0
Fixed income securities	20-100%	60.0	59.0
Short term investments and cash	0-10%	2.0	1.0
Total		100.0	100.0

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

Cash Flows

Company contributions to qualified and nonqualified plans are as follows (amounts in thousands):

Year	Required	Discretionary	Total
2021	$ 271	$ —	$ 271
2020	$ 271	$ 7,600	$ 7,871
2019	$ 1,040	$ 1,731	$ 2,771

All contributions are made in cash. The required contributions made during Fiscal 2021 include $0.3 million in nonqualified pension benefits paid from corporate assets. There were no contributions made to the qualified plans during Fiscal 2021. During Fiscal 2022, the company expects to pay $0.3 million in nonqualified pension benefits from corporate assets. There are no expected contributions to Plan No. 2 that are required under ERISA and the PPA during Fiscal 2022; however, the company expects to make a $1.0 million discretionary contribution to Plan No. 2 in Fiscal 2022. These amounts represent estimates that are based on assumptions that are subject to change.

Benefit Payments

The following are benefits paid under the plans (including settlements) during Fiscal 2021, 2020, and 2019 and expected to be paid from Fiscal 2022 through Fiscal 2031. Estimated future payments include qualified pension benefits that will be paid from the plans' assets and nonqualified pension benefits that will be paid from corporate assets (amounts in thousands):

Year	Pension Benefits	
2019	$ 29,484	*
2020	$ 348,561	^
2021	$ 3,361	+
Estimated Future Payments:		
2022	$ 4,534	
2023	$ 3,027	
2024	$ 2,814	
2025	$ 2,404	
2026	$ 2,150	
2027 – 2031	$ 9,423	

* Includes $7.0 million and $0.7 million from Plan No. 1 and Plan No. 2, respectively, paid as lump sums.

^ Includes $104.5 million and $0.4 million from Plan No. 1 and Plan No. 2, respectively, paid as lump sums.

\+ Includes $1.7 million from Plan No. 2 paid as lump sums.

Postretirement Benefit Plans

The company sponsors postretirement benefit plans that provide health care and life insurance benefits to retirees who meet certain eligibility requirements. Generally, this includes employees with at least 10 years of service who have reached age 60 and participate in a Flowers retirement plan. Retiree medical coverage is provided for a period of three to five years, depending on the participant's age and service at retirement. Participant premiums are determined using COBRA premium levels. Retiree life insurance benefits are offered to a closed group of retirees. The company also sponsors a medical, dental, and life insurance benefits plan to a limited and closed group of participants.

The company delivers retiree medical and dental benefits for Medicare eligible retirees through a health-care reimbursement account. The company no longer sponsors a medical plan for Medicare eligible retirees and does not file for a Medicare Part D subsidy.

The net periodic benefit (income) cost for the company's postretirement benefit plans includes the following components for Fiscal 2021, 2020, and 2019 (amounts in thousands):

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Service cost	$ 337	$ 285	$ 283
Interest cost	119	194	297
Amortization:			
Prior service credit	(3)	(4)	(41)
Actuarial gain	(211)	(300)	(276)
Total net periodic benefit cost (income)	242	175	263
Other changes in plan assets and benefit obligations recognized in OCI:			
Current year actuarial loss (gain)	238	643	(575)
Current year prior service credit	(2,214)	—	—
Amortization of actuarial gain	211	300	276
Amortization of prior service credit	3	4	41
Total recognized in OCI	(1,762)	947	(258)
Total recognized in net periodic benefit cost and OCI	$ (1,520)	$ 1,122	$ 5

The unfunded status and the amounts recognized in the Consolidated Balance Sheets for the company's postretirement benefit plans are as follows (amounts in thousands):

	January 1, 2022	January 2, 2021
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 8,023	$ 7,477
Service cost	337	285
Interest cost	119	194
Participant contributions	453	573
Actuarial loss	238	642
Plan amendments	(2,214)	—
Benefits paid	(1,384)	(1,148)
Benefit obligation at end of year	$ 5,572	$ 8,023
Change in plan assets:		
Fair value of plan assets at beginning of year	$ —	$ —
Employer contributions	931	575
Participant contributions	453	573
Benefits paid	(1,384)	(1,148)
Fair value of plan assets at end of year	$ —	$ —
Funded status, end of year:		
Fair value of plan assets	$ —	$ —
Benefit obligations	(5,572)	(8,023)
Unfunded status and amount recognized at end of year	$ (5,572)	$ (8,023)
Amounts recognized in the balance sheet:		
Current liability	$ (547)	$ (615)
Noncurrent liability	(5,025)	(7,408)
Amount recognized at end of year	$ (5,572)	$ (8,023)
Amounts recognized in AOCI:		
Net actuarial gain before taxes	$ (1,286)	$ (1,735)
Prior service credit before taxes	(2,216)	(5)
Amounts recognized in AOCI	$ (3,502)	$ (1,740)

Assumptions used in accounting for the company's postretirement benefit plans at each of the respective fiscal years ending are as follows:

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Weighted average assumptions used to determine benefit obligations:			
Measurement date	12/31/2021	12/31/2020	12/31/2019
Discount rate	2.60%	2.11%	3.01%
Health care cost trend rate used to determine benefit obligations:			
Initial rate	6.25%	6.50%	6.50%
Ultimate rate	5.00%	5.00%	5.00%
Year trend reaches the ultimate rate	2027	2027	2026
Weighted average assumptions used to determine net periodic cost:			
Measurement date	1/1/21	1/1/20	1/1/19
Discount rate	2.11%	3.01%	4.07%
Health care cost trend rate used to determine net periodic cost:			
Initial rate	6.50%	6.50%	6.50%
Ultimate rate	5.00%	5.00%	5.00%
Year trend reaches the ultimate rate	2027	2026	2025

Cash Flows

Company contributions to postretirement plans are as follows (amounts in thousands):

Year	Employer Net Contribution
2019	$ 722
2020	$ 575
2021	$ 931
2022 (Expected)	$ 548

The table above reflects only the company's share of the benefit cost. Since the company no longer receives reimbursement for Medicare Part D subsidies, the entire $0.5 million expected funding for postretirement benefit plans during 2022 will be required to pay for benefits. Contributions by participants to postretirement benefits were $0.5 million, $0.6 million, and $0.7 million for Fiscal 2021, 2020, and 2019, respectively.

Benefit Payments

The following are benefits paid by the company during Fiscal 2021, 2020, and 2019 and expected to be paid from Fiscal 2022 through Fiscal 2031. All benefits are expected to be paid from the company's assets (amounts in thousands):

Year	Postretirement benefits Employer gross contribution
2019	$ 722
2020	$ 575
2021	$ 931
Estimated Future Payments:	
2022	$ 548
2023	$ 507
2024	$ 465
2025	$ 486
2026	$ 505
2027 – 2031	$ 2,355

Multiemployer Plans

The company contributes to various multiemployer pension plans. Benefits provided under the multiemployer pension plans are generally based on years of service and employee age. Expense under these plans was $1.0 million for Fiscal 2021, $1.2 million for Fiscal 2020, and $1.1 million for Fiscal 2019.

The company contributes to several multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover various union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. If we choose to stop participating in some of these multiemployer plans, we may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. None of the contributions to the pension funds was in excess of 5% or more of the total contributions for plan years 2021, 2020, and 2019. There are no contractually required minimum contributions to the plans as of January 1, 2022.

On September 22, 2021, the union participants of the Retail, Wholesale and Department Store Union Fund (the "Fund") at our Birmingham, Alabama plant voted to withdraw from the Fund in the most recent collective bargaining agreement. The withdrawal was effective, and the union participants were eligible to participate in the 401(k) plan, on December 1, 2021. During the third quarter of Fiscal 2021, the company recorded a liability of $2.1 million related to the withdrawal from the Fund. The withdrawal liability was computed as the net present value of 20 years of monthly payments derived from the company's share of unfunded vested benefits. While this is our best estimate of the ultimate cost of the withdrawal from this Fund, additional withdrawal liability may be incurred based on the final Fund assessment or in the event of a mass withdrawal, as defined by statute, occurring anytime within the next three years following our complete withdrawal. Additionally, the company recorded a liability of $1.2 million related to transition payments, including related tax payments, for the benefit of union participants as part of the collective bargaining agreement. The withdrawal liability charge and the transition payments are recorded in the multi-employer pension plan withdrawal costs line item on our Consolidated Statements of Income. The transition payments were paid during the fourth quarter of Fiscal 2021. The remaining liability associated with the withdrawal is recorded in other accrued current liabilities on the Consolidated Balance Sheets.

The company's participation in these multiemployer plans for Fiscal 2021 is outlined in the table below. The EIN/Pension Plan Number column provides the Employer Identification Number ("EIN") and the three-digit plan number, if applicable. Unless otherwise noted, the most recent PPA zone status available in 2021 and 2020 is for the plan's year-end at December 31, 2021 and December 31, 2020, respectively. The zone status is based on information that the company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The FIP/RP Status Pending/Implemented column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The last column lists the expiration date(s) of the collective-bargaining agreements to which the plans are subject. Finally, there have been no significant changes that affect the comparability of contributions.

In December 2014, the Consolidated and Further Continuing Appropriations Act of 2015 (the "2015 Appropriations Act") was signed into law and materially amended the PPA funding rules. In general, the PPA funding rules were made more flexible in order to make more manageable the steps necessary for multi-employer plans to become or remain economically viable in the future. While in previous years we have been informed that several of the multi-employer pension plans to which our subsidiaries contribute have been labeled with a "critical" or "endangered" status as defined by the PPA, the changes made by the 2015 Appropriations Act will materially impact, on a going forward basis, these prior funding status assessments. In any event, it is unclear at this time what impact, if any, the 2015 Appropriations Act will have on our future obligations to the multi-employer pension plans in which we participate.

			Pension Protection Act Zone Status			Contributions (Amounts in thousands)				
Pension Fund	**EIN**	**Pension Plan No.**	**2021**	**2020**	**FIP/RP Status Pending/Implemented**	**2021 ($)**	**2020 ($)**	**2019 ($)**	**Surcharge Imposed**	**Expiration Date of Collective Bargaining Agreement**
IAM National Pension Fund	51-6031295	002	Red	Red	Yes	136	153	111	Yes	4/29/2022
Retail, Wholesale and Department Store International Union and Industry Pension Fund	63-0708442	001	Red	Red	Yes	211	157	160	No	*
Western Conference of Teamsters Pension Trust ^	91-6145047	001	Green	Green	No	266	349	244	No	2/4/2022

* The union employees withdrew from the fund effective December 1, 2021.
^ The collective bargaining agreement is currently under negotiation.

401(k) Retirement Savings Plans

The Flowers Foods 401(k) Retirement Savings Plan covers substantially all of the company's employees who have completed certain service requirements. During Fiscal 2021, 2020, and 2019, the total cost and employer contributions were as follows (amounts in thousands):

Contributions by fiscal year	**Defined contribution plans expense**
Fiscal 2021	$ 28,081
Fiscal 2020	$ 27,995
Fiscal 2019	$ 27,336

Note 21. Income Taxes

The company's provision for income tax expense (benefit) consists of the following for Fiscal 2021, 2020, and 2019 (amounts in thousands):

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Current Taxes:			
Federal	$ 46,018	$ 64,113	$ 23,397
State	11,790	15,434	5,539
	57,808	79,547	28,936
Deferred Taxes:			
Federal	6,946	(26,112)	17,335
State	(169)	(5,042)	1,274
	6,777	(31,154)	18,609
Income tax expense	$ 64,585	$ 48,393	$ 47,545

Fiscal 2020 deferred income taxes included the impact of the termination of Plan No.1. See Footnote 20, *Postretirement Plans*, for a description of the termination of Plan No. 1.

Income tax expense (benefit) differs from the amount computed by applying the applicable U.S. federal income tax rate of 21% because of the effect of the following items for Fiscal 2021, 2020 and 2019 (amounts in thousands):

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Tax at U.S. federal income tax rate	$ 56,862	$ 42,149	$ 44,538
State income taxes, net of federal income tax benefit	9,181	8,209	5,384
Net share-based payments (windfalls)	(104)	(80)	(828)
Other	(1,354)	(1,885)	(1,549)
Income tax expense	$ 64,585	$ 48,393	$ 47,545

In Fiscal 2021, 2020 and 2019, the most significant difference in the effective rate and the statutory rate was state income taxes.

Deferred tax assets (liabilities) are comprised of the following (amounts in thousands):

	January 1, 2022	January 2, 2021
Self-insurance	$ 5,502	$ 4,806
Compensation and employee benefits	8,816	7,698
Deferred income	4,948	5,988
Loss and credit carryforwards	12,990	13,026
Equity-based compensation	6,797	3,977
Legal accrual	6,514	2,867
Deferred payroll tax under CARES act	4,100	7,525
Pension and postretirement benefits	1,722	2,390
Financing and operating lease right-of-use liabilities	77,422	88,816
Other	6,642	7,028
Valuation allowance	(1,030)	(1,030)
Deferred tax assets	134,423	143,091
Depreciation	(71,041)	(69,056)
Intangibles	(114,882)	(109,824)
Financing and operating lease right-of-use assets	(75,233)	(85,720)
Hedging	(2,015)	(4,357)
Other	(5,009)	(2,393)
Deferred tax liabilities	(268,180)	(271,350)
Net deferred tax liability	$ (133,757)	$ (128,259)

The company has a deferred tax asset of $2.8 million related to a federal net operating loss carryforward which we expect to fully utilize before expiration. Additionally, the company and various subsidiaries have a net deferred tax asset of $4.8 million related to state net operating loss carryforwards, and $5.4 million for credit carryforwards with expiration dates through Fiscal 2041. The utilization of a portion of these state carryforwards could be limited in the future; therefore, a valuation allowance has been recorded. Should the company determine at a later date that certain of these losses which have been reserved for may be utilized, a benefit may be recognized in the Consolidated Statements of Income. Likewise, should the company determine at a later date that certain of these net operating losses for which a deferred tax asset has been recorded may not be utilized, a charge to the Consolidated Statements of Income may be necessary. See Note 2, *Summary of Significant Accounting Policies*, for the deferred tax asset valuation allowance analysis.

There are no unrecognized gross tax benefits as of January 1, 2022. These amounts would be presented exclusive of interest accrued and recorded in other long-term liabilities on the Consolidated Balance Sheets.

The company accrues interest expense and penalties related to income tax liabilities as a component of income before taxes. No accrual of penalties is reflected on the company's balance sheet as the company believes the accrual of penalties is not necessary based upon the merits of its income tax positions. The company had no accrued interest balance at January 1, 2022 and January 2, 2021.

The company defines the federal jurisdiction as well as various state jurisdictions as "major" jurisdictions. The company is no longer subject to federal examinations for years prior to 2018, and with limited exceptions, for years prior to 2017 in state jurisdictions.

The following is a reconciliation of the total amounts of unrecognized tax benefits for Fiscal 2021, 2020, and 2019 (amounts in thousands):

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Unrecognized tax benefit at beginning of fiscal year	$ —	$ 306	$ 750
Lapses of statutes of limitations	—	(306)	(444)
Unrecognized tax benefit at end of fiscal year	$ —	$ —	$ 306

At this time, we do not anticipate significant changes to the amount of gross unrecognized tax benefits over the next twelve months.

Note 22. Commitments and Contingencies

Self-insurance reserves and other commitments and contingencies

The company has recorded current liabilities of $29.8 million and $29.4 million related to self-insurance reserves at January 1, 2022 and January 2, 2021, respectively. The reserves include an estimate of expected settlements on pending claims, defense costs and a provision for claims incurred but not reported. These estimates are based on the company's assessment of potential liability using an analysis of available information with respect to pending claims, historical experience and current cost trends.

In the event the company ceases to utilize the independent distributor model or exits a geographic market, the company is contractually required in some situations to purchase the distribution rights from the independent distributor. The company expects to continue operating under this model and has concluded that the possibility of a loss is remote.

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, results of operations, cash flows or the competitive position of the company. The company believes it is currently in substantial compliance with all material environmental regulations affecting the company and its properties.

Litigation

The company and its subsidiaries from time to time are parties to, or targets of, lawsuits, claims, investigations and proceedings, including personal injury, commercial, contract, environmental, antitrust, product liability, health and safety and employment matters, 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.

At this time, the company is defending twenty-four complaints filed by IDPs alleging that they were misclassified as independent contractors. Eight of these lawsuits seek class and/or collective action treatment. The remaining sixteen cases either allege individual claims or do not seek class or collective action treatment or, in cases in which class treatment was sought, the court denied class certification. The respective courts have ruled on plaintiffs' motions for class certification in four of the pending cases, each of which is discussed below. Unless otherwise noted, a class was conditionally certified under the FLSA in each of the cases described below, although the company has the ability to petition the court to decertify that class at a later date:

Case Name	Case No.	Venue	Date Filed	Status
Noll v. Flowers Foods, Inc., Lepage Bakeries Park Street, LLC, and CK Sales Co., LLC	1:15-cv-00493	U.S. District Court District of Maine	12/3/2015	On October 21, 2021, Flowers Foods, Inc., Lepage Bakeries Park Street, LLC and CK Sales Co., LLC reached an agreement to settle this and two other lawsuits pending in the U.S. District Court for the District of Maine – Bowen et al. v. Flowers Foods, Inc. et al. (No. 1:20-cv-00411); and Aucoin et al. v. Flowers Foods, Inc. et al (No. 1:20-cv-00410). The settlement provides for a payment of $16.5 million, comprised of up to $9 million in settlement funds and $7.5 million in attorneys' fees. The settlement also requires a phased repurchase of approximately 75 distribution territories in Maine, which, once completed, the company will service its Maine market using company sales employees. The company estimates this cost to be $6.6 million (of which $4.7 million is included in other accrued liabilities and the remainder as a contra account to notes receivable). These amounts were recorded in the selling, distribution, and administrative expenses line item of the Consolidated Statements of Income. The terms of the settlement require court approval. The company remains committed to our IDP program.
Richard et al. v. Flowers Foods, Inc., Flowers Baking Co. of Lafayette, LLC, Flowers Baking Co. of Baton Rouge, LLC, Flowers Baking Co. of Tyler, LLC and Flowers Baking Co. of New Orleans, LLC	6:15-cv-02557	U.S. District Court Western District of Louisiana	10/21/2015	On April 9, 2021, the court decertified the FLSA collective action and denied plaintiffs' motion to certify under Federal Rule of Civil Procedure 23 a state law class of distributors who operated in the state of Louisiana.
Coronado v. Flowers Foods, Inc. and Flowers Baking Co. of El Paso, LLC	1:16-cv-00350	U.S. District Court District of New Mexico	4/27/2016	On August 2, 2021, the court denied defendants' motion to decertify the FLSA collective action.
Martins v. Flowers Foods, Inc., Flowers Baking Co. of Bradenton, LLC and Flowers Baking Co. of Villa Rica, LLC	8:16-cv-03145	U.S. District Court Middle District of Florida	11/8/2016	

The company and/or its respective subsidiaries contests the allegations and are vigorously defending all of these lawsuits. Given the stage of the complaints and the claims and issues presented, except for lawsuits disclosed herein that have reached a settlement or agreement in principle, the company cannot reasonably estimate at this time the possible loss or range of loss that may arise from the unresolved lawsuits.

During the last three fiscal years, the company has settled, and the appropriate court has approved, the following collective and/or class action lawsuits filed by distributors alleging that such distributors were misclassified as independent contractors. In each of these settlements, in addition to the monetary terms noted below, the settlements also included certain non-economic terms intended to strengthen and enhance the independent contractor model:

Case Name	Case No.	Venue	Date Filed	Comments
Caddick et al. v. Tasty Baking Co.	2:19-cv-02106	U.S. District Court Eastern District of Pennsylvania	5/15/2019	On October 27, 2021, the Court dismissed this lawsuit and approved an agreement to settle this and a companion case (Bertino v. Tasty Baking Co., No. 2:20-cv-05823) for a payment of $3.15 million, inclusive of attorneys' fees and cost, service awards and consideration for class members who are active distributors to enter into an amendment to their distributor agreements. This settlement charge was recorded as a selling, distribution and administrative expense in our Consolidated Statements of Income during the third quarter of Fiscal 2020. The settlement was paid in early November 2021.
Rosinbaum et al. v. Flowers Foods, Inc. and Franklin Baking Co., LLC	7:16-cv-00233	U.S. District Court Eastern District of North Carolina	12/1/2015	On December 29, 2020, the Court dismissed this lawsuit and approved an agreement to settle this matter for $8.3 million, inclusive of attorneys' fees and costs, service awards, and incentives for class members who are active distributors to enter into an amendment to their distributor agreements. This settlement charge was recorded as a selling, distribution and administrative expense in our Consolidated Statements of Income during the fourth quarter of fiscal 2019 and was paid during the first quarter of Fiscal 2021.
Carr et al. v. Flowers Foods, Inc. and Flowers Baking Co. of Oxford, Inc.	2:15-cv-06391	U.S. District Court Eastern District of Pennsylvania	12/1/2015	On September 29, 2020, the Court dismissed this lawsuit and approved an agreement to settle this matter and the Boulange matter (see below) for a payment of $13.25 million, inclusive of attorneys' fees and costs, service awards, and incentives for class members who are active distributors to enter into an amendment to their distributor agreements. This settlement charge was recorded as a selling, distribution and administrative expense in our Consolidated Statements of Income during the fourth quarter of fiscal 2019 and was paid during the fourth quarter of Fiscal 2020.
Boulange v. Flowers Foods, Inc. and Flowers Baking Co. of Oxford, Inc.	2:16-cv-02581	U.S. District Court Eastern District of Pennsylvania	3/25/2016	This matter was consolidated with the Carr litigation described immediately above.

Neff et al. v. Flowers Foods, Inc., Lepage Bakeries Park Street, LLC, and CK Sales Co., LLC	5:15-cv-00254	U.S. District Court District of Vermont	12/2/2015	On November 13, 2020, the court dismissed this lawsuit following a October 22, 2020 order approving an agreement to settle this matter for a payment of $7.6 million, inclusive of attorneys' fees and costs, service awards, and incentives for class members who are active distributors to enter into an amendment to their distributor agreements. This settlement charge was recorded as a selling, distribution and administrative expense in our Consolidated Statements of Income during the fourth quarter of Fiscal 2019 and paid during the fourth quarter of Fiscal 2020.
Green et al. v. Flowers Foods, Inc. et al.	1:19-cv-01021	U.S. District Court Western District of Tennessee	2/1/2019	*

* On September 7, 2018, the company negotiated a global settlement to resolve 12 pending collective action lawsuits against the company for a payment in the amount of $9.0 million, comprised of $5.4 million in settlement funds and $3.6 million in attorneys' fees. The proposed settlement class consisted of approximately 900 members. The settlement also contained certain non-economic terms intended to strengthen and enhance the independent contractor model, which remains in place. On February 1, 2019, plaintiffs' counsel filed a consolidated complaint with the United States District Court for the Western District of Tennessee to obtain judicial approval of the parties' global settlement. The court approved the global settlement on February 27, 2019. Thereafter, the parties moved to dismiss the 12 settled lawsuits with prejudice. This settlement was recorded as a selling, distribution and administrative expense in our Consolidated Statements of Income during the third quarter of Fiscal 2018. A total of $4.2 million was paid in March 2019, and a second payment of $3.5 million was made in June 2019. The remainder of the settlement funds ($1.3 million) reverted to Flowers during the second quarter of Fiscal 2019 per the terms of the settlement, and was recorded as a reduction of selling, distribution and administrative expense in our Consolidated Statements of Income.

See Note 14, *Debt and Other Commitments*, for additional information on the company's commitments.

Note 23. Unaudited Quarterly Financial Information

Results of operations for each of the four quarters in the respective fiscal years are as follows. For Fiscal 2021, each quarter represents a period of twelve weeks, except the first quarter, which includes sixteen weeks. For Fiscal 2020, first quarter consisted of sixteen weeks, second and third quarters twelve weeks, and fourth quarter thirteen weeks. (amounts in thousands, except per share data):

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales	2021	$ 1,302,168	$ 1,017,309	$ 1,027,800	$ 983,490
	2020	$ 1,349,444	$ 1,025,861	$ 989,650	$ 1,023,036
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately)*	2021	$ 643,576	$ 504,062	$ 515,078	$ 512,531
	2020	$ 670,873	$ 506,033	$ 497,659	$ 521,577
Net income (loss)	2021	$ 71,655	$ 56,358	$ 38,852	$ 39,322
	2020	$ (5,772)	$ 57,919	$ 44,347	$ 55,824
Basic net income (loss) per share	2021	$ 0.34	$ 0.27	$ 0.18	$ 0.19
	2020	$ (0.03)	$ 0.27	$ 0.21	$ 0.26
Diluted net income (loss) per share	2021	$ 0.34	$ 0.26	$ 0.18	$ 0.18
	2020	$ (0.03)	$ 0.27	$ 0.21	$ 0.26

* The company does not report gross margin. This line item presents our material, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately) under an alternative presentation.

The table below presents financial results that impact comparability, by quarter, for Fiscal 2021 (amounts in thousands):

Items presented separately on the Consolidated Statements of Income	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal 2021	Footnote
Loss (recovery) on inferior ingredients	$ 122	$ —	$ (950)	$ 1,772	$ 944	Note 4
Multi-employer pension plan withdrawal costs	$ —	$ —	$ 3,300	$ —	$ 3,300	Note 20
Pension plan settlement loss	$ —	$ —	$ —	$ 403	$ 403	Note 20

The table below presents financial results that impact comparability, by quarter, for Fiscal 2020 (amounts in thousands):

Items presented separately on the Consolidated Statements of Income	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal 2020	Footnote
Loss on inferior ingredients	$ —	$ —	$ —	$ 107	$ 107	Note 4
Restructuring and related impairment charges	$ —	$ 10,535	$ 20,100	$ 4,848	$ 35,483	Note 5
Pension plan settlement and curtailment loss (gain)	$ 116,207	$ —	$ (7,153)	$ (297)	$ 108,757	Note 20

Note 24. Subsequent Events

The company has evaluated subsequent events since January 1, 2022, the date of these financial statements. We believe there were no material events or transactions discovered during this evaluation that requires recognition or disclosure in the financial statements other than the items discussed below.

Dividend. On February 18, 2022, the Board of Directors declared a dividend of $0.21 per share on the company's common stock to be paid on March 18, 2022 to shareholders of record on March 4, 2022.