FLOWERS FOODS INC
Form 8-K
May 09, 2003

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): May 9, 2003 (April 24, 2003)

FLOWERS FOODS, INC.

(Exact name of registrant as specified in its charter)

| Georgia | 1-16247 | 58-2582379 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| 1919 Flowers Circle, Thomasville, GA | 31757 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

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

**ITEM 2. Acquisition or Disposition of Assets**.

On April 24, 2003 Flowers Foods, Inc. (the Company ) issued a press release announcing the completion of the sale of substantially all the assets of its Mrs. Smith s Bakeries frozen desert business to The Schwan Food Company ( Schwan ). The transaction was valued at approximately $240 million. The value received by the Company was determined on the basis of arm s length negotiations between the parties. The sale was completed in accordance with the Asset Purchase Agreement dated January 29, 2003 by and among the Company, Mrs. Smith s Bakeries, LLC and Schwan. The final purchase price is subject to a net prepayment and inventory adjustment which is to be calculated within ninety (90) days following the closing of the transaction. A copy of the press release is furnished with this report as Exhibit 99.1 to this Form 8-K and is incorporated herein by reference.

**ITEM 7. Financial Statements and Exhibits.**

a. Financial statements of business acquired.

Not applicable.

b. Pro Forma financial information.

The required pro forma financial information is filed herewith as part of this report.

c. Exhibits.

The following exhibits are furnished as part of this Report:

| EXHIBIT NUMBER | EXHIBIT |
|---|---|
| 2.1 | Asset Purchase Agreement dated January 29, 2003 by and among The Schwan Food Company, Flowers Foods, Inc. and Mrs. Smith s Bakeries, LLC |
| 2.2 | First Amendment to Asset Purchase Agreement dated April 24, 2003 by and among The Schwan Food Company, Flowers Foods, Inc. and Mrs. Smith s Bakeries, LLC |
| 99.1 | Press release of Flowers Foods, Inc. dated April 24, 2003 |

**Unaudited Pro Forma Financial Information**

The following unaudited pro forma condensed consolidated balance sheet as of December 28, 2002 presents our combined financial position assuming the sale of certain assets of Mrs. Smith s Bakeries frozen dessert business to The Schwan Food Company (the transaction ) had been completed on that date. The following unaudited pro forma condensed consolidated income statements for the 52 weeks ended December 28, 2002, December 29, 2001 and December 30, 2000 presents our combined results of operations assuming that the transaction had been completed on January 2, 2000. In the opinion of management, these statements include all material adjustments necessary to reflect, on a pro forma basis, the impact of the transaction on the historical financial information of the Company. The adjustments set forth in the Pro Forma Adjustments column are described in the Notes to Unaudited Pro Forma Condensed Consolidated Financial Information.

Following the transaction, the Company will consist of Flowers Foods Bakeries Group, LLC, our producer and marketer of fresh packaged bakery products and Flowers Foods Specialty Group, LLC, our producer and marketer of frozen bakery products and fresh bakery snack products. Consequently, the financial statements of the Company will consist of the historical financial statements of the Company, with Mrs. Smith s Bakeries frozen dessert business presented as a discontinued operation. Accordingly, the following unaudited pro forma financial information reflects the exclusion of the assets and liabilities disposed of and the results of operations of Mrs. Smith s Bakeries frozen dessert business.

Our unaudited pro forma condensed consolidated financial information should be read in conjunction with the consolidated financial statements and the related notes contained in our Form 10-K for the fiscal year ended December 28, 2002 as filed with the Securities and Exchange Commission on March 28, 2003. Our unaudited pro forma condensed consolidated financial information has been presented for informational purposes only and does not reflect the results of operations or financial position of the Company that would have existed had we operated without the Mrs. Smith s Bakeries frozen dessert business for the periods presented and should not be relied upon as being indicative of our future results after the transaction.

**Flowers Foods, Inc.**
**Unaudited Pro Forma Condensed Consolidated Balance Sheet**
**(Amounts in thousands, except share data)**

| | December 28, 2002 | | | | |
|---|---|---|---|---|---|
| | | | Pro forma adjustments | | |
| | Flowers Foods | Mrs. Smith's (a) | Debit | Credit | Pro forma Flowers Foods |
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | $ 69,826 | $ 0 | $231,551(b) | $249,972(b) | $ 28,235 |
| | | | | 23,170(c) | |
| Accounts and notes receivable, net | 104,121 | 0 | | | 104,121 |
| Inventories, net | 81,897 | 53,998 | | | 27,899 |
| Spare parts and supplies | 23,468 | 3,649 | | | 19,819 |
| Assets held for sale | 18,563 | 0 | | | 18,563 |
| Other | 12,689 | 2,615 | | | 10,074 |
| | 310,564 | 60,262 | | | 208,711 |
| Net Property, Plant and Equipment | 579,739 | 141,592 | | | 438,147 |
| Deferred Taxes | 22,267 | 0 | 13,400(c) | | 35,667 |
| Other Assets | 13,390 | 3,179 | | 4,600(c) | 5,611 |
| Notes Receivable | 71,599 | 0 | | | 71,599 |
| Goodwill, net | 54,249 | 0 | | | 54,249 |
| Other Intangible Assets, net | 44,572 | 34,468 | | | 10,104 |
| | $1,096,380 | | | | $824,088 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| Current Liabilities: | | | | | |
| Current maturities of long-term debt | $ 27,231 | $ 0 | $ 25,844(b) | | $ 1,387 |
| Accounts payable | 82,827 | 0 | | | 82,827 |
| Other accrued liabilities | 94,461 | 794 | 3,948(b) | | 82,919 |
| | | | 6,800(d) | | |
| | 204,519 | 794 | | | 167,133 |

| | | | | | |
|---|---|---|---|---|---|
| Long-Term Debt and Capital Leases | 223,133 | 0 | 217,733(b) | | 5,400 |
| Other Liabilities: | | | | | |
| Postretirement/postemployment obligations | 54,486 | 0 | | | 54,486 |
| Facility closing costs and severance | 7,337 | 0 | | | 7,337 |
| Other | 13,909 | 2,133 | 570(b) | | 11,206 |
| | 75,732 | 2,133 | | | 73,029 |
| Stockholders Equity: | | | | | |
| Preferred stock $100 par value | | | | | |
| Preferred stock $.01 par value | | | | | |
| Common stock | 300 | 0 | | | 300 |
| Capital in excess of par value | 483,142 | 0 | | | 483,142 |
| Retained earnings | 131,388 | 0 | 17,070(c)<br>4,200(c) | | 110,118 |
| Accumulated other comprehensive loss | (21,834) | 0 | | 6,800(d) | (15,034) |
| | 592,996 | 0 | | | 578,526 |
| | $1,096,380 | | | | $824,088 |

*The notes to this unaudited pro forma condensed consolidated balance sheet are an integral part of the pro forma financial information presented.*

**Flowers Foods, Inc.**
**Unaudited Pro Forma Condensed Consolidated Statement of Income**
**(Amounts in thousands, except per share data)**

| | 52 Weeks Ended December 28, 2002 | | | | |
|---|---|---|---|---|---|
| | | | Pro forma adjustments | | |
| | Flowers Foods | Mrs. Smith s (e) | Debit | Credit | Pro forma Flowers Foods |
| Net sales | $1,652,162 | $323,555 | | | $1,328,607 |
| Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown below) | 910,369 | 258,483 | | | 651,886 |
| Selling, marketing and administrative expenses | 613,020 | 62,965 | | | 550,055 |
| Depreciation and amortization | 73,965 | 17,192 | | | 56,773 |
| Asset impairment | 26,500 | 24,368 | | | 2,132 |
| Unusual charges | 1,111 | 1,111 | | | 0 |
| Income from operations | 27,197 | (40,564) | | | 67,761 |
| Interest income | (5,686) | 0 | | | (5,686) |
| Interest expense | 22,167 | 3,454 | | $15,973(f) | 2,740 |
| Income (loss) from continuing operations before income taxes | 10,716 | (44,018) | | | 70,707 |
| Income tax expense | 4,593 | 0 | $22,629(g) | | 27,222 |
| Net income (loss) from continuing operations | $ 6,123 | $ (44,018) | | | $ 43,485 |
| Net Income Per Common Share: | | | | | |
| Basic | $ 0.20 | | | | $ 1.46 |
| Weighted average shares outstanding | 29,836 | | | | 29,836 |
| Diluted | $ 0.20 | | | | $ 1.42 |
| Weighted average shares outstanding | 30,528 | | | | 30,528 |

*The notes to this unaudited pro forma condensed consolidated statement of income are an integral part of the pro forma financial information presented.*

**Flowers Foods, Inc.**
**Unaudited Pro Forma Condensed Consolidated Statement of Income**
**(Amounts in thousands, except per share data)**

| | 52 Weeks Ended December 29, 2001 | | | | |
|---|---|---|---|---|---|
| | | | Pro forma adjustments | | |
| | Flowers Foods(h) | Mrs. Smith s(e) | Debit | Credit | Pro forma Flowers Foods |
| Net sales | $1,627,004 | $327,514 | | | $1,299,490 |
| Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown below) | 888,824 | 247,955 | | | 640,869 |
| Selling, marketing and administrative expenses | 622,132 | 68,017 | | | 554,115 |
| Depreciation and amortization | 73,815 | 16,691 | | | 57,124 |
| Insurance proceeds | (7,473) | (7,473) | | | 0 |
| Unusual charges | 43,898 | 17,393 | | | 26,505 |
| Extraordinary gain on early extinguishment of debt | (6,422) | 0 | | | (6,422) |
| Income from operations | 12,230 | (15,069) | | | 27,299 |
| Interest income | (4,278) | 0 | | | (4,278) |
| Interest expense | 36,466 | 1,993 | | $19,154(f) | 15,319 |
| Income (loss) from continuing operations before income taxes | (19,958) | (17,062) | | | 16,258 |
| Income tax expense (benefit) | (5,665) | 0 | $11,924(g) | | 6,259 |
| Net income (loss) from continuing operations | $ (14,293) | $ (17,062) | | | $ 9,999 |
| Net Income (Loss) Per Common Share: | | | | | |
| Basic | $ (0.48) | | | | $ 0.34 |
| Weighted average shares outstanding | 29,798 | | | | 29,798 |
| Diluted | $ (0.48) | | | | $ 0.34 |
| Weighted average shares outstanding | 29,798 | | | | 29,798 |

*The notes to this unaudited pro forma condensed consolidated statement of income are an integral part of the pro forma financial information presented.*

**Flowers Foods, Inc.**
**Unaudited Pro Forma Condensed Consolidated Statement of Income**
**(Amounts in thousands, except per share data)**

| | 52 Weeks Ended December 30, 2000 | | | | |
|---|---|---|---|---|---|
| | | | Pro forma adjustments | | |
| | Flowers Foods | Mrs. Smith's(e) | Debit | Credit | Pro forma Flowers Foods |
| Net sales | $1,562,879 | $316,696 | | | $1,246,183 |
| Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown below) | 900,198 | 256,251 | | | 643,947 |
| Selling, marketing and administrative expenses | 585,434 | 66,496 | | | 518,938 |
| Depreciation and amortization | 67,102 | 16,847 | | | 50,255 |
| Insurance proceeds | (17,193) | (17,193) | | | 0 |
| Asset impairment | 17,383 | 17,383 | | | 0 |
| Unusual charges | 321 | 1,475 | | | (1,154) |
| Income (loss) from operations | 9,634 | (24,563) | | | 34,197 |
| Interest income | 0 | 0 | | | 0 |
| Interest expense | 68,373 | 4,423 | | $15,727(f) | 48,223 |
| (Loss) from continuing operations before income taxes | (58,739) | (28,986) | | | (14,026) |
| Income tax expense (benefit) | (16,457) | 0 | $12,530(g) | | (3,927) |
| Net (loss) from continuing operations | $ (42,282) | $ (28,986) | | | $ (10,099) |
| Net (Loss) Per Common Share: | | | | | |
| Basic | $ (1.41) | | | | $ (0.34) |
| Weighted average shares outstanding | 30,036 | | | | 30,036 |
| Diluted | $ (1.41) | | | | $ (0.34) |
| Weighted average shares outstanding | 30,036 | | | | 30,036 |

*The notes to this unaudited pro forma condensed consolidated statement of income are an integral part of the pro forma financial information presented.*

**Notes to Unaudited Pro Forma Condensed Consolidated Financial Information**
**(Amounts in Thousands)**

(a) Reflects the separation of the assets and liabilities of the Mrs. Smith s Bakeries frozen dessert business sold to The Schwan Food Company that are included in the Company s consolidated balance sheet as of December 28, 2002.

(b) Reflects the payment of the Company s senior secured credit facility as required by such facility upon consummation of the transaction, capital lease obligations, related interest and certain other liabilities. Proceeds from the transaction of $231.6 million, as well as a portion of the Company s cash holdings were used for this payment.

(c) In connection with the transaction, an estimate of the various transaction and other costs are as follows. Approximately $26.1 million of these costs will be reported in discontinued operations in fiscal year 2003.

| | |
|---|---|
| Investment banking fees | $ 1,870 |
| Legal and accounting fees | 1,400 |
| Deferred financing costs | 4,600(1) |
| Lease breakage fees | 4,800 |
| Settlement of interest rate swap | 5,500 |
| Separation and severance | 4,800(2) |
| System license transfer fees | 1,600 |
| Indemnification insurance premium | 2,700 |
| Other | 500 |
| Total | $27,770 |

(1) Represents a non-cash write-off of deferred financing costs.

(2) Total cash payments for separation and severance was approximately $5.8 million, of which $1.0 million was already accrued in the Company s liabilities.

As a result of the sale, the Company expects to record a loss of approximately $21.2 million, (net of a $13.4 million tax benefit) which includes the transaction costs detailed above and approximately $4.2 million, net of tax, resulting from the sale of the assets.

(d) Represents the settlement of the interest rate swap at December 28, 2002. The cash payment of this settlement is included in the liabilities discussed in footnote (b) above.

(e) Represents the exclusion of the results of operations of the Mrs. Smith s Bakeries frozen dessert business that are included in the Company s consolidated statements of income for the periods presented.

(f) Reflects the change in interest expense as a result of the payment of the Company s senior secured credit facility and capital lease obligations.

A 1/8% change in the interest rates used to calculate the change in interest expense in the respective pro forma condensed consolidated statements of income would yield the following pro forma net income (loss) from continuing operations:

| | Increase 1/8% | Decrease 1/8% |
|---|---|---|
| 52 weeks ended December 28, 2002 | $ 43,379 | $43,591 |
| 52 weeks ended December 29, 2001 | $ 9,757 | $10,242 |
| 52 weeks ended December 30, 2000 | $(10,667) | $ (9,531) |

(g) For fiscal 2002 and fiscal 2001, adjustment reflects the Company s pro forma tax rate at 38.5%, which historically approximates its rate during profitable years. For fiscal 2000, the adjustment approximates the effective tax rate of 28% for that year.

(h) Reflects a reclassification to income from operations an extraordinary gain on early extinguishment of debt of $3.9 million, net of tax, pursuant to Statement of Financial Accounting Standards No. 145, Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections .

**SIGNATURES**

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

**FLOWERS FOODS, INC.**

By: /s/ Jimmy M. Woodward

Name: Jimmy M. Woodward
Title: Sr. Vice-President, Chief Financial Officer and Chief Accounting Officer

Date: May 9, 2003

**EXHIBIT INDEX**

| EXHIBIT NUMBER | EXHIBIT |
|---|---|
| 2.1 | Asset Purchase Agreement dated January 29, 2003 by and among The Schwan Food Company, Flowers Foods, Inc. and Mrs. Smith s Bakeries, LLC |
| 2.2 | First Amendment to Asset Purchase Agreement dated April 24, 2003 by and among The Schwan Food Company, Flowers Foods, Inc. and Mrs. Smith s Bakeries, LLC |
| 99.1 | Press release of Flowers Foods, Inc. dated April 24, 2003 |