FLOWERS FOODS INC
Form 10-Q
November 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 8, 2016

OR

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

Commission file number 1-16247

FLOWERS FOODS, INC.

(Exact name of registrant as specified in its charter)

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

1919 FLOWERS CIRCLE, THOMASVILLE, GEORGIA

(Address of principal executive offices)

31757

(Zip Code)

(229)-226-9110

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

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

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

TITLE OF EACH CLASS	OUTSTANDING AT NOVEMBER 4, 2016
Common Stock, $.01 par value	207,632,550

FLOWERS FOODS, INC.

INDEX

Forward-Looking Statements

Statements contained in this filing and certain other written or oral statements made from time to time by the company and its representatives that are not historical facts are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to current expectations regarding our future financial condition and results of operations and are often identified by the use of words and phrases such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "wil 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 report and may include, but are not limited to:

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

The foregoing list of important factors does not include all such factors, nor necessarily present them in order of importance. In addition, you should consult other disclosures made by the company (such as in our other filings with the Securities and Exchange Commission ("SEC") or in company press releases) for other factors that may cause actual results to differ materially from those projected by the company. Refer to Part I, Item 1A., Risk Factors, of our Annual Report on Form 10-K for the year ended on January 2, 2016 (the "Form 10-K") and Part II, Item 1A., Risk Factors, of this Quarterly Report on Form 10-Q for the period ended October 8, 2016 (this "Form 10-Q") for additional information regarding factors that could affect the company's results of operations, financial condition and liquidity.

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

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

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	October 8, 2016	January 2, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$7,535	$14,378
Accounts and notes receivable, net of allowances of $2,975 and $1,341, respectively	284,071	269,683
Inventories, net:		
Raw materials	41,514	42,336
Packaging materials	21,521	21,853
Finished goods	50,585	46,988
Inventories, net	113,620	111,177
Spare parts and supplies	59,430	57,288
Other	29,489	47,782
Total current assets	494,145	500,308
Property, plant and equipment, net:		
Property, plant and equipment, gross	1,932,822	1,881,264
Less: accumulated depreciation	(1,143,742)	(1,076,296)
Property, plant and equipment, net	789,080	804,968
Notes receivable	153,211	154,311
Assets held for sale	43,686	36,191
Other assets	7,428	7,881
Goodwill	465,578	464,926
Other intangible assets, net	856,487	875,466
Total assets	$2,809,615	$2,844,051
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$11,654	$74,685
Accounts payable	181,518	171,923
Other accrued liabilities	154,041	157,130
Total current liabilities	347,213	403,738
Long-term debt:		
Total long-term debt and capital lease obligations	980,177	930,022
Other liabilities:		

Post-retirement/post-employment obligations	127,878	76,541
Deferred taxes	131,813	146,462
Other long-term liabilities	45,312	44,206
Total other long-term liabilities	305,003	267,209
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 shares and 228,729,585 shares issued, respectively	199	199
Treasury stock — 21,104,040 shares and 16,463,137 shares, respectively	(272,099)	(174,635)
Capital in excess of par value	641,117	636,501
Retained earnings	930,743	877,817
Accumulated other comprehensive loss	(122,738)	(96,800)
Total stockholders' equity	1,177,222	1,243,082
Total liabilities and stockholders' equity	$2,809,615	$2,844,051

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands except per share data)

(Unaudited)

	For the Twelve Weeks Ended		For the Forty Weeks Ended	
	October 8, 2016	October 10, 2015	October 8, 2016	October 10, 2015
Sales	$918,791	$885,302	$3,058,168	$2,920,142
Materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately below)	476,760	464,045	1,575,905	1,507,214
Selling, distribution and administrative expenses	341,538	322,087	1,124,473	1,064,619
Impairment of assets	—	—	—	2,275
Pension plan settlement loss	1,832	—	6,473	—
Depreciation and amortization	32,530	29,419	108,595	99,704
Income from operations	66,131	69,751	242,722	246,330
Interest expense	9,440	5,992	26,157	20,349
Interest income	(4,757)	(5,114)	(15,686)	(17,029)
Income before income taxes	61,448	68,873	232,251	243,010
Income tax expense	21,232	25,077	81,517	86,065
Net income	$40,216	$43,796	$150,734	$156,945
Net income per common share:				
Basic:				
Net income per common share	$0.19	$0.21	$0.72	$0.75
Weighted average shares outstanding	207,402	210,842	208,649	210,318
Diluted:				
Net income per common share	$0.19	$0.21	$0.72	$0.74
Weighted average shares outstanding	208,944	213,310	210,564	212,921
Cash dividends paid per common share	$0.1600	$0.1450	$0.4650	$0.4225

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	For the Twelve Weeks Ended		For the Forty Weeks Ended	
	October 8, 2016	October 10, 2015	October 8, 2016	October 10, 2015
Net income	$40,216	$43,796	$150,734	$156,945
Other comprehensive income, net of tax:				
Pension and postretirement plans:				
Settlement loss	1,127	—	3,981	—
Net loss for the period	(1,714)	—	(38,121)	—
Amortization of prior service cost (credit) included in net income	29	(67)	79	(223)
Amortization of actuarial loss included in net income	1,273	624	2,939	2,080
Pension and postretirement plans, net of tax	715	557	(31,122)	1,857
Derivative instruments:				
Net change in fair value of derivatives	3,433	(2,652)	2,496	(1,262)
Loss reclassified to net income	742	1,096	2,688	3,934
Derivative instruments, net of tax	4,175	(1,556)	5,184	2,672
Other comprehensive income (loss), net of tax	4,890	(999)	(25,938)	4,529
Comprehensive income	$45,106	$42,797	$124,796	$161,474

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in thousands, except share data)

(Unaudited)

	Common Stock Number of shares issued	Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Number of Shares	Cost	Total
Balances at January 2, 2016	228,729,585	$199	$636,501	$877,817	$(96,800)	(16,463,137)	$(174,635)	$1,243,082
Net income				150,734				150,734
Derivative instruments, net of tax					5,184			5,184
Pension and postretirement plans, net of tax					(31,122)			(31,122)
Exercise of stock options			(2,906)			1,716,003	21,768	18,862
Amortization of share-based compensation awards			15,017					15,017
Issuance of deferred compensation			(81)			4,053	81	—
Tax effect related to share-based payment awards			(429)					(429)
Performance-contingent restricted stock awards issued (Note 13)			(4,449)			419,367	4,449	—
Issuance of deferred stock			(1,411)			111,868	1,411	—

awards								
Stock repurchases			(1,125)			(6,892,194)	(125,173)	(126,298)
Dividends paid on vested share-based payment awards				(579)				(579)
Dividends paid — $0.465 per common share				(97,229)				(97,229)
Balances at October 8, 2016	228,729,585	$199	$641,117	$930,743	$(122,738)	(21,104,040)	$(272,099)	$1,177,222

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	For the Forty Weeks Ended	
	October 8, 2016	October 10, 2015
CASH FLOWS PROVIDED BY (DISBURSED FOR) OPERATING ACTIVITIES:		
Net income	$150,734	$156,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	15,005	13,291
Loss reclassified from accumulated other comprehensive income to net income	4,174	6,205
Depreciation and amortization	108,595	99,704
Deferred income taxes	(1,094)	11,029
Impairment of assets	—	2,275
Provision for inventory obsolescence	937	839
Allowances for accounts receivable	3,164	2,340
Pension and postretirement plans expense (income)	2,728	(4,677)
Other	(2,988)	(1,913)
Qualified pension plan contributions	(1,000)	(10,000)
Changes in operating assets and liabilities, net of acquisitions and disposals:		
Accounts receivable, net	(17,154)	(19,710)
Inventories, net	(3,877)	(10,461)
Hedging activities, net	7,239	(8,387)
Other assets	(1,925)	(2,377)
Accounts payable	9,078	31,214
Other accrued liabilities	11,393	14,225
NET CASH PROVIDED BY OPERATING ACTIVITIES	285,009	280,542
CASH FLOWS PROVIDED BY (DISBURSED FOR) INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(67,400)	(61,258)
Proceeds from sale of property, plant and equipment	2,945	10,347
Repurchase of independent distributor territories	(12,626)	(16,255)
Principal payments from notes receivable	19,830	19,916
Acquisition of business, net of cash acquired	—	(280,848)
Acquisition of intangible assets	—	(5,000)
NET CASH DISBURSED FOR INVESTING ACTIVITIES	(57,251)	(333,098)
CASH FLOWS PROVIDED BY (DISBURSED FOR) FINANCING ACTIVITIES:		
Dividends paid, including dividends on share-based payment awards	(97,808)	(89,672)
Exercise of stock options	18,862	18,571
Excess windfall tax benefit related to share-based payment awards	2,567	8,742
Payments for financing fees	(3,508)	(602)
Stock repurchases, including accelerated stock repurchases	(126,298)	(6,858)

Change in bank overdrafts	(5,558)	(10,868)
Proceeds from debt borrowings	1,916,592	710,500
Debt and capital lease obligation payments	(1,939,450)	(576,000)
NET CASH (DISBURSED FOR) PROVIDED BY FINANCING ACTIVITIES	(234,601)	53,813
Net (decrease) increase in cash and cash equivalents	(6,843)	1,257
Cash and cash equivalents at beginning of period	14,378	7,523
Cash and cash equivalents at end of period	$7,535	$8,780

(See Accompanying Notes to Condensed Consolidated Financial Statements)

FLOWERS FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

INTERIM FINANCIAL STATEMENTS — The accompanying unaudited Condensed Consolidated Financial Statements of Flowers Foods, Inc. (the “company”, “Flowers Foods”, “Flowers”, “us”, “we”, or “our”) have been prepared by t company’s management in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and applicable rules and regulations of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, the unaudited Condensed Consolidated Financial Statements included herein contain all adjustments (consisting of only normal recurring adjustments) necessary to state fairly the company’s financial position, the results of its operations and its cash flows. The results of operations for the twelve and forty weeks ended October 8, 2016 and October 10, 2015 are not necessarily indicative of the results to be expected for a full fiscal year. The Condensed Consolidated Balance Sheet at January 2, 2016 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements, and notes thereto, included in the company’s Annual Report on Form 10-K for the fiscal year ended January 2, 2016.

ESTIMATES — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The company believes the following critical accounting estimates affect its more significant judgments and estimates used in the preparation of its consolidated financial statements: revenue recognition, derivative instruments, valuation of long-lived assets, goodwill and other intangible assets, self-insurance reserves, income tax expense and accruals, pension obligations, stock-based compensation, and commitments and contingencies. These estimates are summarized in the company’s Annual Report on Form 10-K for the fiscal year ended January 2, 2016.

REPORTING PERIODS — The company operates on a 52-53 week fiscal year ending the Saturday nearest December 31. Fiscal 2016 consists of 52 weeks, with the company’s quarterly reporting periods as follows: first quarter ended April 23, 2016 (sixteen weeks), second quarter ended July 16, 2016 (twelve weeks), third quarter ended October 8, 2016 (twelve weeks) and fourth quarter ending December 31, 2016 (twelve weeks).

SEGMENTS — Flowers Foods currently operates two business segments: a direct-store-delivery (“DSD”) segment (“DSD Segment”) and a warehouse delivery segment (“Warehouse Segment”). The DSD Segment (84% of total year to date sales) currently operates 39 plants that produce a wide variety of fresh bakery foods, including fresh breads, buns, rolls, tortillas, and snack cakes. These products are sold through a DSD route delivery system to retail and foodservice customers in the Southeast, Mid-Atlantic, New England, Southwest, California and select markets in Nevada, the Midwest and the Pacific Northwest. The Warehouse Segment (16% of total year to date sales) currently operates ten plants that produce snack cakes, breads and rolls for national retail, foodservice, vending, and co-pack customers and deliver through customers’ warehouse channels. The Warehouse Segment also operates one baking ingredient mix facility.

SIGNIFICANT CUSTOMER — Following is the effect our largest customer, Walmart/Sam's Club, had on the company's sales for the twelve and forty weeks ended October 8, 2016 and October 10, 2015. Walmart/Sam's Club is the only customer to account for greater than 10% of the company's sales.

	For the Twelve Weeks Ended		For the Forty Weeks Ended	
	October 8, 2016	October 10, 2015	October 8, 2016	October 10, 2015
	(% of Sales)		(% of Sales)	
DSD Segment	17.2	16.7	17.0	16.9
Warehouse Segment	2.6	2.5	2.7	2.5
Total	19.8	19.2	19.7	19.4

Walmart/Sam's Club is our only customer with a balance greater than 10% of outstanding trade receivables. Their percentage of trade receivables was 18.1% and 18.9%, on a consolidated basis, as of October 8, 2016 and January 2, 2016, respectively. No other customer accounted for greater than 10% of the company's outstanding trade receivables.

SIGNIFICANT ACCOUNTING POLICIES — There were no significant changes to our critical accounting policies for the quarter ended October 8, 2016 from those disclosed in the company's Annual Report on Form 10-K for the fiscal year ended January 2, 2016.

2. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In May 2014, the Financial Accounting Standards Board (the "FASB") issued guidance for recognizing revenue in contracts with customers. This guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There are five steps outlined in the guidance to achieve this core principle. This guidance was originally effective January 1, 2017, the first day of our fiscal 2017. In July 2015, the FASB issued a deferral for one year, making the effective date December 31, 2017, the first day of our fiscal 2018. In March 2016, the FASB amended the initial guidance to clarify the implementation guidance on principal versus agent considerations. In April 2016, the FASB amended the initial guidance to clarify the identification of performance conditions and the licensing implementation guidance. In May 2016, the FASB amended the initial guidance to update certain narrow scopes within the revenue recognition guidance. Early application is permitted, but not before January 1, 2017. Entities will have the option to apply the final standard retrospectively or use a modified retrospective method, recognizing the cumulative effect of the standards in retained earnings at the date of initial application. An entity will not restate prior periods if uses the modified retrospective method, but will be required to disclose the amount by which each financial statement line item is affected in the current reporting period by the application of the standard as compared to the guidance in effect prior to the change, as well as reasons for significant changes. The company intends to adopt the updated standard in the first quarter of fiscal 2018. The company is currently evaluating the impact that implementing this standard will have on its financial statements and disclosures, as well as whether it will use the retrospective or modified retrospective method of adoption.

In August, 2014 the FASB issued guidance that requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments provide a definition of the term substantial doubt, require an evaluation every reporting period including interim periods, provide principles for considering the mitigating effect of management's plans, require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, require an express statement and other disclosures when substantial doubt is not alleviated, and require an assessment for a period of one year after the date of that the financial statements are issued. The amendments for this guidance are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The company intends to adopt the updated standard in the fourth quarter of fiscal 2016. The company does not anticipate that this guidance will have a material impact on our Condensed Consolidated Financial Statements.

In July 2015, the FASB issued guidance that entities should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. This guidance must be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The company is still analyzing the potential impact of this guidance on the company's Condensed Consolidated Financial Statements.

In February 2016, the FASB issued guidance that requires an entity to recognize lease liabilities and a right-of-use asset for virtually all leases (other than those that meet the definition of a short-term lease) on the balance sheet and to disclose key information about the entity's leasing arrangements. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with earlier adoption permitted. This guidance must be adopted using a modified retrospective approach for all leases existing at, or entered into after the date of initial adoption, with an option to elect to use certain transition relief. The company intends to adopt the updated standard in the first quarter of fiscal 2019. The company is evaluating the potential impact of this guidance on our Condensed Consolidated Financial Statements.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, and early adoption is permitted. The company is evaluating the potential impact of this guidance on our Condensed Consolidated Financial Statements and the timing of when we will adopt the guidance.

In August 2016, the FASB issued guidance on the classification of certain cash receipts and payments in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. The guidance must be applied retrospectively to all periods presented but may be applied prospectively if retrospective application would be impracticable. We are currently evaluating the impact that the new guidance will have on our Condensed Consolidated Financial Statements.

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

3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In April 2015, the FASB issued guidance to simplify the presentation of debt issuance costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discount presentation. This guidance is effective for financial statements for fiscal years beginning after December 15, 2015, and interim periods within those years. This guidance is applied on a retrospective basis at adoption and the disclosures for a change in an accounting principle apply. This guidance was adopted as of January 3, 2016 (the first day of our fiscal 2016) with application of the provisions retrospectively. Debt issuance costs associated with line-of-credit arrangements is not addressed by this guidance. The company’s accounts receivable securitization facility and credit facility, discussed in Note 9, Debt and Other Obligations, are excluded from this guidance and are still presented as other long-term assets in the Condensed Consolidated Balance Sheet. As a result of adopting this standard, the debt issuance costs of our other debt obligations were reclassified as a reduction to the carrying amount of the debt liability for the Condensed Consolidated Balance Sheets as of July 16, 2016 and January 2, 2016. The balance sheet as of January 2, 2016 was retrospectively adjusted, which resulted in a $3.9 million decrease to other non-current assets and to total long-term debt and capital lease obligations.

In November 2015, the FASB issued guidance that requires entities to report deferred tax liabilities and assets as noncurrent in a classified statement of financial position. The previous requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by this guidance. This guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The company adopted this standard for the annual period beginning on January 3, 2016 (the first day of our fiscal 2016) and applied it retrospectively. As a result of adopting this standard, all deferred tax assets and liabilities have been classified as noncurrent for the Condensed Consolidated Balance Sheets as of October 8, 2016 and January 2, 2016. The balance sheet as of January 2, 2016 was retrospectively adjusted, which resulted in a $37.2 million decrease in the current deferred income tax asset balance and in the long-term deferred income tax liability balance.

The table below presents the adjustments for each of the line items impacted for these pronouncements (amounts in thousands):

	January 2, 2016	As adjusted January 2, 2016
ASSETS		
Deferred taxes	$37,207	$—
Total current assets	537,515	500,308
Other assets	11,791	7,881
Total assets	$2,885,168	$2,844,051
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Total long-term debt and capital lease obligations	933,932	930,022
Deferred taxes	183,669	146,462

Total other long-term liabilities	304,416	267,209
Total liabilities and stockholders' equity	$2,885,168	$2,844,051

In September 2015, the FASB issued guidance that entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. This update requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This guidance also requires that an entity present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance is effective for our fiscal 2016. This is applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance. The potential impact of the guidance on the company's Condensed Consolidated Financial Statements will only be known after a measurement period adjustment for an acquisition is recognized. The adoption of this guidance is presented in Note 6, Goodwill and Other Intangible Assets, for the measurement period adjustments related to the acquisitions discussed in Note 4, Acquisitions, below.

4. ACQUISITIONS

Alpine Valley Bread Company

On October 13, 2015, the company completed the acquisition of 100% of the capital stock of Alpine Valley Bread Company ("Alpine"), a leading organic bread baker, from its shareholders for total consideration of approximately $121.9 million inclusive of payments for certain tax benefits. We paid cash of $109.3 million and issued 481,540 shares of our common stock to the sellers in a private placement. Alpine operates two production facilities in Mesa, Arizona and has widespread distribution across the U.S. The Alpine acquisition has been accounted for as a business combination and is included in our Warehouse Segment. The results of Alpine's operations were included in the company's Condensed Consolidated Financial Statements beginning on October 14, 2015. The total preliminary goodwill recorded for this acquisition was $36.5 million and it is deductible for tax purposes.

During fiscal 2015, the company incurred $1.6 million of acquisition-related costs for Alpine. The acquisition-related costs for Alpine were recorded in the selling, distribution and administrative expense line item in our Condensed Consolidated Statements of Income. Alpine contributed $11.9 million in sales during fiscal 2015. Alpine's operating income since the acquisition was immaterial to our fiscal 2015 results of operations.

The following table summarizes the consideration paid for Alpine based on the fair value at the acquisition date. This table is based on preliminary valuations for the assets acquired and liabilities assumed. The identifiable intangible assets, property, plant and equipment, and certain financial assets and taxes are still under review. We will continue reviewing the final recognized amounts of identifiable assets acquired and liabilities assumed until the fourth quarter of our fiscal 2016 when the allocation will be final (amounts in thousands):

Fair Value of consideration transferred:	
Cash consideration paid	$109,340
Stock consideration paid	12,602
Total consideration paid	121,942
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Property, plant, and equipment	15,614
Identifiable intangible assets	64,600
Financial assets	5,190
Net recognized amounts of identifiable assets acquired	85,404
Goodwill	$36,538

The following table presents the acquired intangible assets subject to amortization (amounts in thousands, except amortization periods):

	Total	Weighted average amortization	Attribution Method

		years	
Trademarks	$20,900	40.0	Straight-line
Customer relationships	43,700	25.0	Sum of year digits
	$64,600	29.9	

The fair value of trade receivables is $4.8 million with an immaterial amount determined to be uncollectible. We did not acquire any other class of receivables as a result of the acquisition.

Dave's Killer Bread

On September 12, 2015, the company completed the acquisition of 100% of the capital stock of Dave's Killer Bread ("DKB"), the nation's best-selling organic bread, from its shareholders for total cash payments of approximately $282.1 million inclusive of payments for certain tax benefits. DKB operates one production facility in Milwaukie, Oregon and has widespread distribution across the U.S. We believe the acquisition of DKB strengthens our position as the second-largest baker in the U.S. by giving us access to the fast growing organic bread category and expanding our geographic reach into the Pacific Northwest. The DKB acquisition has been accounted for as a business combination and is included in our DSD Segment. The results of DKB's operations are included in the company's Condensed Consolidated Financial Statements beginning on September 13, 2015. The total goodwill recorded for this acquisition was $146.1 million and it is not deductible for tax purposes.

During fiscal 2015, the company incurred $4.6 million of acquisition-related costs for DKB. The acquisition-related costs for DKB were recorded in the selling, distribution and administrative expense line item in our Condensed Consolidated Statements of Income. DKB contributed $37.6 million in sales during fiscal 2015. DKB's operating income since the acquisition was immaterial to our fiscal 2015 results of operations.

The following table summarizes the consideration paid for DKB based on the fair value at the acquisition date (amounts in thousands):

Fair Value of consideration transferred:	
Cash consideration paid	$282,115
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Property, plant, and equipment	9,359
Identifiable intangible assets	176,300
Deferred income taxes	(59,827)
Financial assets	10,203
Net recognized amounts of identifiable assets acquired	136,035
Goodwill	$146,080

The following table presents the acquired intangible assets subject to amortization (amounts in thousands, except amortization periods):

	Total	Weighted average amortization years	Attribution Method
Trademarks	$107,700	40.0	Straight-line
Customer relationships	68,000	25.0	Sum of year digits
Non-compete agreements	600	2.0	Straight-line
	$176,300	34.1	

The fair value of trade receivables is $14.2 million. The gross amount of the receivable is $14.4 million of which $0.2 million is determined to be uncollectible. We did not acquire any other class of receivables as a result of the acquisition.

Unaudited pro forma consolidated results of operations for the Alpine and DKB acquisitions are not included because the company determined that they are immaterial.

12

5. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) ("AOCI")

The company's total comprehensive income presently consists of net income, adjustments for our derivative financial instruments accounted for as cash flow hedges, and various pension and other postretirement benefit related items.

During the twelve and forty weeks ended October 8, 2016 and October 10, 2015, reclassifications out of accumulated other comprehensive loss were as follows (amounts in thousands):

Details about AOCI Components (Note 2)	Amount Reclassified from AOCI For the Twelve Weeks Ended October 8, 2016	October 10, 2015	Affected Line Item in the Statement Where Net Income is Presented
Gains and losses on cash flow hedges:			
Interest rate contracts	$(62)	$(57)	Interest expense
Commodity contracts	(1,144)	(1,724)	Cost of sales, Note 3
Total before tax	(1,206)	(1,781)	Total before tax
Tax benefit	464	685	Tax benefit
Total net of tax	(742)	(1,096)	Net of tax
Amortization of defined benefit pension items:			
Prior-service (cost) credits	(47)	108	Note 1
Settlement loss	(1,832)	—	Note 1
Actuarial losses	(2,070)	(1,014)	Note 1
Total before tax	(3,949)	(906)	Total before tax
Tax benefit	1,520	349	Tax benefit
Total net of tax	(2,429)	(557)	Net of tax
Total reclassifications	$(3,171)	$(1,653)	Net of tax

Details about AOCI Components (Note 2)	Amount Reclassified from AOCI For the Forty Weeks Ended October 8, 2016	October 10, 2015	Affected Line Item in the Statement Where Net Income is Presented
Gains and losses on cash flow hedges:			
Interest rate contracts	$(197)	$(192)	Interest expense
Commodity contracts	(4,174)	(6,205)	Cost of sales, Note 3
Total before tax	(4,371)	(6,397)	Total before tax
Tax benefit	1,683	2,463	Tax benefit
Total net of tax	(2,688)	(3,934)	Net of tax
Amortization of defined benefit pension items:			
Prior-service (cost) credits	(128)	361	Note 1

Settlement loss	(6,473)	—	Note 1
Actuarial losses	(4,779)	(3,381)	Note 1
Total before tax	(11,380)	(3,020)	Total before tax
Tax benefit	4,381	1,163	Tax benefit
Total net of tax	(6,999)	(1,857)	Net of tax
Total reclassifications	$(9,687)	$(5,791)	Net of tax

Note 1: These items are included in the computation of net periodic pension cost. See Note 14, Post-retirement 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 Condensed Consolidated Statements of Cash Flows.

13

During the forty weeks ended October 8, 2016, changes to accumulated other comprehensive loss, net of income tax, by component were as follows (amounts in thousands and brackets denote a debit balance):

	Gains/Losses on Cash Flow Hedges	Defined Benefit Pension Plan Items	Total
Accumulated other comprehensive loss, January 2, 2016	$ (10,190)	$ (86,610)	$(96,800)
Other comprehensive income before reclassifications	2,496	(38,121)	(35,625)
Reclassified to earnings from accumulated other comprehensive loss	2,688	6,999	9,687
Accumulated other comprehensive loss, October 8, 2016	$ (5,006)	$ (117,732)	$(122,738)

During the forty weeks ended October 10, 2015, changes to accumulated other comprehensive loss, net of income tax, by component were as follows (amounts in thousands and brackets denote a debit balance):

	Gains/Losses on Cash Flow Hedges	Defined Benefit Pension Plan Items	Total
Accumulated other comprehensive loss, January 3, 2015	$ (11,408)	$ (86,612)	$(98,020)
Other comprehensive income before reclassifications	(1,262)	—	(1,262)
Reclassified to earnings from accumulated other comprehensive loss	3,934	1,857	5,791
Accumulated other comprehensive loss, October 10, 2015	$ (8,736)	$ (84,755)	$(93,491)

Amounts reclassified out of accumulated other comprehensive loss 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 Condensed Consolidated Statements of Cash Flows. The following table presents the net of tax amount of the loss reclassified from accumulated other comprehensive income ("AOCI") for our commodity contracts (amounts in thousands):

	For the Forty Weeks Ended	
	October 8, 2016	October 10, 2015
Gross loss reclassified from AOCI into income	$4,174	$6,205

Tax benefit	(1,607)	(2,388)
Net of tax	$2,567	$3,817

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The table below summarizes our goodwill and other intangible assets at October 8, 2016 and January 2, 2016, respectively, each of which is explained in additional detail below (amounts in thousands):

	October 8, 2016	January 2, 2016
Goodwill	$465,578	$464,926
Amortizable intangible assets, net of amortization	442,487	461,466
Indefinite-lived intangible assets	414,000	414,000
Total goodwill and other intangible assets	$1,322,065	$1,340,392

The changes in the carrying amount of goodwill, by segment, during the forty weeks ended October 8, 2016 are as followings (amounts in thousands):

	DSD Segment	Warehouse Segment	Total
Outstanding at January 2, 2016	$424,408	$ 40,518	$464,926
Change in goodwill related to acquisitions	155	497	652
Outstanding at October 8, 2016	$424,563	$ 41,015	$465,578

The table below presents the changes to goodwill by acquisition from January 2, 2016 to October 8, 2016 (amounts in thousands):

	DKB	Alpine	Total
Working capital adjustments	$60	$ 497	$557
Acquisition-related tax adjustments	(315)	—	(315)
Adjustment to property, plant and equipment	410	—	410
Change in goodwill	$155	$ 497	$652

As of October 8, 2016 and January 2, 2016, the company had the following amounts related to amortizable intangible assets (amounts in thousands):

	October 8, 2016			January 2, 2016		
		Accumulated	Net		Accumulated	Net
Asset	Cost	Amortization	Value	Cost	Amortization	Value
Trademarks	$246,327	$ 23,492	$222,835	$246,327	$ 18,037	$228,290
Customer relationships	281,621	64,410	217,211	281,621	51,650	229,971
Non-compete agreements	4,874	4,596	278	4,874	4,043	831
Distributor relationships	4,123	1,960	2,163	4,123	1,749	2,374
Total	$536,945	$ 94,458	$442,487	$536,945	$ 75,479	$461,466

Aggregate amortization expense for the twelve and forty weeks ended October 8, 2016 and October 10, 2015 was as follows (amounts in thousands):

	Amortization Expense
For the twelve weeks ended October 8, 2016	$ 5,586
For the twelve weeks ended October 10, 2015	$ 3,359
For the forty weeks ended October 8, 2016	$ 18,979
For the forty weeks ended October 10, 2015	$ 9,644

There are $414.0 million of indefinite-lived intangible trademark assets separately identified from goodwill at October 8, 2016 and January 2, 2016. These trademarks are classified as indefinite-lived because we believe they are well established brands, many older than forty years old, 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. We perform an annual impairment analysis, or on interim basis if the facts and circumstances change, to determine if the trademarks are realizing the expected economic benefits.

During the fourth quarter of our fiscal 2015, we reviewed our long-term strategy for all of our organic bread brands due to the acquisitions of the DKB and Alpine organic brands in our third and fourth quarter, respectively, of fiscal 2015. We previously acquired the Barowsky's brand, which included certain organic products, in fiscal 2012. We originally intended to distribute that brand nationally throughout the territories in our DSD Segment. As a result of our strategic review, the DKB brand will be distributed through our DSD Segment and the Alpine brand will be distributed through our Warehouse Segment. Accordingly, the Barowsky's brand will remain primarily a regional bread brand for the northeast. Since the Barowsky's brand will not be used as originally intended, we examined the indefinite-life assignment and determined that it is appropriate to begin amortizing this brand. Beginning in our fourth quarter of fiscal 2015, we began amortizing the Barowsky's brand over a 35 year straight-line attribution period. Because this change in strategy still reflects that the estimated fair value exceeds the carrying value, an impairment charge was not applicable. We continue to monitor this and all of our finite-lived intangible assets for changes in the facts and circumstances that could impact the fair value.

Estimated amortization of intangibles for each of the next five years is as follows (amounts in thousands):

	Amortization of Intangibles
Remainder of 2016	$ 5,519
2017	$ 23,578
2018	$ 22,878
2019	$ 22,385
2020	$ 21,893

7. 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 independent distributors' distribution rights by independent distributors. These notes receivable are recorded in the Consolidated Balance Sheet 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 independent distributors with similar credit ratings and for the same maturities. However, the company finances approximately 3,600 independent distributors all with varied financial histories and credit risks. Considering the diversity of credit risks among the independent distributors, the company has no method to accurately determine a market interest rate to apply to the notes. The distribution rights are generally financed for up to ten years and the distribution rights notes are collateralized by the independent distributors' distribution rights. The company maintains a wholly-owned subsidiary to assist in financing the distribution rights purchase activities if requested by new independent distributors, using the distribution rights and certain associated assets as collateral. These notes receivable earn interest at a fixed rate.

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

	Interest Income
For the twelve weeks ended October 8, 2016	$4,757
For the twelve weeks ended October 10, 2015	$5,114
For the forty weeks ended October 8, 2016	$15,686
For the forty weeks ended October 10, 2015	$17,029

At October 8, 2016, January 2, 2016, and October 10, 2015 respectively, the carrying value of the distributor notes was as follows (amounts in thousands):

	October 8, 2016	January 2, 2016	October 10, 2015
Distributor notes receivable	$174,201	$174,904	$182,987
Current portion of distributor notes receivable recorded in accounts and notes receivable, net	20,990	20,593	20,602
Long-term portion of distributor notes receivable	$153,211	$154,311	$162,385

At October 8, 2016 and January 2, 2016, the company has evaluated the collectability of the distributor notes and determined that a reserve is not necessary. Payments on these distributor notes are collected by the company weekly in conjunction with the distributor settlement process.

The fair value of the company's variable rate debt at October 8, 2016 approximates the recorded value. The fair value of the company's senior notes ("notes"), as discussed in Note 9, Debt and Other Obligations, 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
3.5% senior notes due 2026	$394,009	$398,056	2
4.375% senior notes due 2022	$397,346	$430,088	2

For fair value disclosure information about our derivative assets and liabilities see Note 8, Derivative Financial Instruments.

8. 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 Risk

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

As of October 8, 2016, the company's hedge portfolio contained commodity 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	$1,219	$—	$ —	$1,219
Other long-term	161	—	—	161
Total	1,380	—	—	1,380
Liabilities:				
Other current	(8,412)	(202)	—	(8,614)
Other long-term	(45)	—	—	(45)
Total	(8,457)	(202)	—	(8,659)
Net Fair Value	$(7,077)	$(202)	$ —	$(7,279)

As of January 2, 2016, 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	Total

			Level 3	
Liabilities:				
Other current	$(11,926)	$(2,941)	$ —	$(14,867)
Other long-term	(20)	—	—	(20)
Total	(11,946)	(2,941)	—	(14,887)
Net Fair Value	$(11,946)	$(2,941)	$ —	$(14,887)

The positions held in the portfolio are used to hedge economic exposure to changes in various raw material prices and effectively fix the price, or limit increases in prices, for a period of time extending primarily into fiscal 2017. These instruments are designated as cash-flow hedges. The effective portion of changes in fair value for these derivatives is recorded each period in other comprehensive income (loss), and any ineffective portion of the change in fair value is recorded to current period earnings in selling, distribution and administrative expenses. All of the company-held commodity derivatives at October 8, 2016 and January 2, 2016 qualified for hedge accounting.

Interest Rate Risk

The company entered into treasury rate locks on August 5, 2016 and August 8, 2016 to fix the interest rate for the 3.5% senior notes due 2026 (“2026 notes”) issued on September 28, 2016. The derivative positions were closed when the debt was priced on September 23, 2016 with a cash settlement net receipt of $1.0 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. During the twelve and forty weeks ended October 8, 2016, the company recognized $0.1 million of ineffectiveness due to issuing the debt earlier than the settlement date of the treasury locks. The ineffectiveness amount is reported as a selling, distribution, and administrative expense in our Condensed Consolidated Statements of Income.

The company entered into a treasury rate lock on March 28, 2012 to fix the interest rate for the 4.375% senior notes due 2022 (“2022 notes”) issued on April 3, 2012. The derivative position was closed when the debt was priced on March 29, 2012 with a cash settlement that offset changes in the benchmark treasury rate between the execution of the treasury rate lock and the debt pricing date. This treasury rate lock was designated as a cash flow hedge.

The following table outlines the company’s derivatives which were hedging the risk of changes in forecasted interest payments on forecasted issuance of long-term debt (amounts in thousands, before tax, and an asset is a positive value and a liability is a negative value):

Terminated	Description	Aggregate Notional Amount	Fair Value When Terminated	Fair Value Deferred in AOCI(1)	Ineffective Portion at Termination
April/2012	Treasury lock	$500,000	$ (3,137)	$ 2,510	$ 627
September/2016	Treasury lock	$200,000	$ 1,298	$ (1,298)	$ —
September/2016	Treasury lock	$150,000	$ (323)	$ 215	$ 108

(1) The amount reported in AOCI will be reclassified to interest expense as interest payments are made on the related notes

Derivative Assets and Liabilities

The company has the following derivative instruments located on the Condensed Consolidated Balance Sheet, which are utilized for the risk management purposes detailed above (amounts in thousands):

	Derivative Assets				Derivative Liabilities			
	October 8, 2016		January 2, 2016		October 8, 2016		January 2, 2016	
Derivatives Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts		$1,219		$ —		$8,614		$14,867

	Other current assets		Other current assets		Other current liabilities		Other current liabilities	
Commodity contracts	Other long term assets	161	Other long term assets	—	Other long-term liabilities	45	Other long-term liabilities	20
Total		$1,380		$ —		$8,659		$14,887

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):

Derivatives in Cash Flow Hedge Relationships(1)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the Twelve Weeks Ended October 8, 2016	October 10, 2015	Location of (Gain) or Loss Reclassified from AOCI into Income (Effective Portion)(2)	Amount of (Gain) or Loss Reclassified from AOCI into Income (Effective Portion) For the Twelve Weeks Ended October 8, 2016	October 10, 2015
Interest rate contracts	$666	$—	Interest expense (income)	$38	$35
Commodity contracts	2,767	(2,652)	Production costs(3)	704	1,061
Total	$3,433	$(2,652)		$742	$1,096

Derivatives in Cash Flow Hedge Relationships(1)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) For the Forty Weeks Ended October 8, 2016	October 10, 2015	Location of (Gain) or Loss Reclassified from AOCI into Income (Effective Portion)(2)	Amount of (Gain) or Loss Reclassified from AOCI into Income (Effective Portion) For the Forty Weeks Ended October 8, 2016	October 10, 2015
Interest rate contracts	$666	$—	Interest expense (income)	$121	$117
Commodity contracts	1,830	(1,262)	Production costs(3)	2,567	3,817
Total	$2,496	$(1,262)		$2,688	$3,934

1. Amounts in parentheses indicate debits to determine net income.
2. Amounts in parentheses, if any, indicate credits to determine net income.
3. Included in materials, supplies, labor and other production costs (exclusive of depreciation and amortization shown separately).

There was no hedging ineffectiveness, and no amounts were excluded from the ineffectiveness testing, during the twelve and forty weeks ended October 8, 2016 and October 10, 2015, respectively, related to the company’s commodity risk hedges.

The balance in accumulated other comprehensive loss related to commodity price risk and interest rate risk derivative transactions that are closed or will expire over the following years are as follows (amounts in thousands and net of tax)(amounts in parenthesis indicate a debit balance) at October 8, 2016:

	Commodity price risk derivatives	Interest rate risk derivatives	Totals
Closed contracts	$ (643)	$ 113	$ (530)
Expiring in 2016	(213)	—	(213)
Expiring in 2017	(4,263)	—	(4,263)
Total	$ (5,119)	$ 113	$ (5,006)

Derivative Transactions Notional Amounts

As of October 8, 2016, the company had the following outstanding financial contracts that were entered to hedge commodity risk (amounts in thousands):

	Notional amount
Wheat contracts	$ 52,649
Soybean oil contracts	4,718
Natural gas contracts	4,477
Total	$ 61,844

The company's derivative instruments contain no credit-risk related contingent features at October 8, 2016. As of October 8, 2016 and January 2, 2016, the company had $9.8 million and $20.7 million, respectively, in other current assets representing collateral for hedged positions.

9. DEBT AND OTHER OBLIGATIONS

Long-term debt and capital leases (net of issuance costs and debt discounts excluding line-of-credit arrangements) consisted of the following at October 8, 2016 and January 2, 2016 (amounts in thousands):

	October 8, 2016	January 2, 2016
Unsecured credit facility	$10,500	$160,000
Unsecured 2013 term loan	—	238,515
3.5% senior notes due 2026	394,009	—
4.375% senior notes due 2022		