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**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 three months ended March 31, 2017

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 001-37540



**HOSTESS BRANDS, INC.**

(f/k/a GORES HOLDINGS, INC.)  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**1 East Armour Boulevard**  
**Kansas City, MO**  
(Address of principal executive offices)

**47-4168492**  
(I.R.S. Employer  
Identification No.)

**64111**  
(Zip Code)

**(816) 701-4600**  
Registrant's telephone number, including area code

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§229.405 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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

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Large accelerated filer

Accelerated  
filer

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

Smaller reporting company  Emerging growth company

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

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

Shares of Class A common stock outstanding - 99,285,972 shares at May 5, 2017

Shares of Class B common stock outstanding - 31,104,988 shares at May 5, 2017

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**HOSTESS BRANDS, INC.  
FORM 10-Q  
FOR THE QUARTER ENDED MARCH 31, 2017**

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**HOSTESS BRANDS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(Unaudited, dollars in thousands, except shares and per share data)*

	March 31,		December 31,	
	2017	2016	(Successor)	(Successor)
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 45,675	\$ 26,855		
Accounts receivable, net	96,060	89,237		
Inventories	32,089	30,444		
Prepays and other current assets	4,846	4,827		
Total current assets	178,670	151,363		
Property and equipment, net	158,173	153,224		
Intangible assets, net	1,941,071	1,946,943		
Goodwill	588,460	588,460		
Other assets, net	7,784	7,902		
Total assets	<u>\$ 2,874,158</u>	<u>\$ 2,847,892</u>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Long-term debt and capital lease obligation payable within one year	\$ 11,496	\$ 11,496		
Accounts payable	39,299	34,083		
Customer trade allowances	36,413	36,691		
Accrued expenses and other current liabilities	15,594	21,656		
Total current liabilities	102,802	103,926		
Long-term debt and capital lease obligation	990,589	993,374		
Tax receivable agreement	165,384	165,384		
Deferred tax liability	359,252	353,797		
Total liabilities	<u>1,618,027</u>	<u>1,616,481</u>		
Commitments and Contingencies (Note 13)				
Class A common stock, \$0.0001 par value, 200,000,000 shares authorized, 98,685,917 and 98,250,917 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	10	10		
Class B common stock, \$0.0001 par value, 50,000,000 shares authorized 31,704,988 issued and outstanding	3	3		
Additional paid in capital	913,345	912,824		
Retained earnings (accumulated deficit)	214	(15,618)		
Stockholders' equity	913,572	897,219		
Non-controlling interest	342,559	334,192		
Total liabilities and stockholders' equity	<u>\$ 2,874,158</u>	<u>\$ 2,847,892</u>		

See accompanying notes to the unaudited consolidated financial statements.

**HOSTESS BRANDS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(Unaudited, dollars in thousands, except shares and per share data)*

	Three Months Ended March 31, 2017 <b>(Successor)</b>	Three Months Ended March 31, 2016 <b>(Predecessor)</b>
Net revenue	\$ 184,538	\$ 160,217
Cost of goods sold	105,243	89,892
Gross profit	79,295	70,325
Operating costs and expenses:		
Advertising and marketing	7,322	7,199
Selling expense	8,112	6,795
General and administrative	13,183	9,638
Amortization of customer relationships	5,872	156
Impairment of property and equipment	—	7,267
Loss on sale/abandonment of property and equipment and bakery shutdown costs	—	180
Business combination transaction costs	—	215
Related party expenses	83	1,235
Total operating costs and expenses	34,572	32,685
Operating income	44,723	37,640
Other expense:		
Interest expense, net	9,830	17,849
Other expense	714	1,254
Total other expense	10,544	19,103
Income before income taxes	34,179	18,537
Income tax expense	9,980	—
Net income	24,199	18,537
Less: Net income attributable to the non-controlling interest	8,367	928
Net income attributable to Class A shareholders/partners	\$ 15,832	\$ 17,609
Earnings per Class A share:		
Basic	\$ 0.16	
Diluted	\$ 0.15	
Weighted-average shares outstanding:		
Basic	98,250,917	
Diluted	104,773,887	

See accompanying notes to the unaudited consolidated financial statements.

**HOSTESS BRANDS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
*(Unaudited, dollars in thousands, except shares data)*

**Partners' Equity (Deficit)**  
**Hostess Holdings, LP**  
**(Predecessor)**

	Class A	Class C	Total Partners' Equity (Deficit)	Non-controlling Interest
<b>Balance – December 31, 2015</b>	\$ (276,084)	\$ (346,046)	\$ (622,130)	\$ (37,991)
Distributions to partners	(125 )	(180 )	(305 )	(10 )
Unit based compensation	75	75	150	—
Net income	8,805	8,804	17,609	928
<b>Balance – March 31, 2016</b>	<b>\$ (267,329)</b>	<b>\$ (337,347)</b>	<b>\$ (604,676)</b>	<b>\$ (37,073)</b>

**Stockholders' Equity**  
**Hostess Brands, Inc.**  
**(Successor)**

	Class A Voting Common Stock		Class B Voting Common Stock		Additional Paid-in Capital	Accumulated losses / Retained Earnings	Total Stockholders' Equity	Non-controlling Interest
	Shares	Amount	Shares	Amount				
<b>Balance–December 31, 2016</b>	98,250,917	\$ 10	31,704,988	\$ 3	\$ 912,824	\$ (15,618)	\$ 897,219	\$ 334,192
Net income	—	—	—	—	—	15,832	15,832	8,367
Share-based compensation	435,000	—	—	—	521	—	521	—
<b>Balance–March 31, 2017</b>	<b>98,685,917</b>	<b>\$ 10</b>	<b>31,704,988</b>	<b>\$ 3</b>	<b>\$ 913,345</b>	<b>\$ 214</b>	<b>\$ 913,572</b>	<b>\$ 342,559</b>

See accompanying notes to the unaudited consolidated financial statements.

**HOSTESS BRANDS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Unaudited, dollars in thousands)*

	Three Months Ended March 31, 2017 (Successor)	Three Months Ended March 31, 2016 (Predecessor)
<b>Operating activities</b>		
Net income	\$ 24,199	\$ 18,537
Depreciation and amortization	9,266	2,677
Impairment of property and equipment	—	7,267
Debt discount (premium) amortization	(248 )	830
Stock-based compensation	521	150
Deferred taxes	5,455	—
Change in operating assets and liabilities		
Accounts receivable	(6,823 )	(12,690 )
Inventories	(1,645 )	(1,347 )
Prepays and other current assets	(19 )	(638 )
Accounts payable and accrued expenses	(4,152 )	4,790
Customer trade allowances	(278 )	(492 )
Other	(8 )	(75 )
Net cash provided by operating activities	26,268	19,009
<b>Investing activities</b>		
Purchases of property and equipment	(4,519 )	(2,809 )
Proceeds from sale of assets	54	—
Acquisition and development of software assets	(446 )	(424 )
Net cash used in investing activities	(4,911 )	(3,233 )
<b>Financing activities</b>		
Repayments of long-term debt and capital lease obligation	(2,537 )	(2,312 )
Distributions to partners	—	(305 )
Distributions to non-controlling interest	—	(10 )
Net cash used in financing activities	(2,537 )	(2,627 )
<b>Net increase in cash and cash equivalents</b>	18,820	13,149
Cash and cash equivalents at beginning of period	26,855	64,467
<b>Cash and cash equivalents at end of period</b>	\$ 45,675	\$ 77,616

**Supplemental Disclosures of Cash Flow Information:**

Cash paid during the period for:

Interest	\$ 14,759	\$ 16,959
Taxes paid	—	—
Supplemental disclosure of non-cash investing:		
Purchases of property and equipment funded by accounts payable	\$ 3,325	\$ 3,194

See accompanying notes to the unaudited consolidated financial statements.

**HOSTESS BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

***Description of Business***

Hostess Brands, Inc. is a Delaware corporation headquartered in Kansas City, Missouri. The consolidated financial statements include the accounts of Hostess Brands, Inc. and its wholly owned subsidiaries (collectively, the “Company”). The Company is a leading packaged food company focused on developing, manufacturing, marketing, selling and distributing fresh sweet baked goods in the United States. The Hostess brand dates to 1919 when the Hostess CupCake was introduced to the public, followed by Twinkies in 1930. In 2013, the Legacy Hostess Equityholders (as defined below) acquired the Hostess brand out of the bankruptcy liquidation proceedings of its prior owners, free and clear of all past liabilities. After a brief hiatus in production, the Company began providing Hostess products to consumers and retailers across the nation in July 2013. Today, the Company produces a variety of new and classic treats under the Hostess® and Dolly Madison® group of brands, including Twinkies®, CupCakes, Ding Dongs®, HoHos®, Donettes® and Fruit Pies.

On November 4, 2016 (the “Closing Date”), in a transaction referred to as the “Business Combination,” Gores Holdings, Inc. acquired a controlling interest in Hostess Holdings, L.P. (“Hostess Holdings”), an entity owned indirectly by C. Dean Metropoulos and certain equity funds managed by affiliates of Apollo Global Management, LLC (the “Apollo Funds”, and together with entities controlled by Mr. Metropoulos, the “Legacy Hostess Equityholders”). Our “Sponsor” refers to Gores Sponsor, LLC, a Delaware limited liability company and the principal stockholder of Gores Holdings, Inc. prior to the Business Combination, and the “The Gores Group” refers to The Gores Group LLC, an affiliate of our Sponsor. In connection with the closing of the Business Combination, Gores Holdings, Inc. changed its name to “Hostess Brands, Inc.” and its trading symbols on NASDAQ from “GRSH,” and “GRSHW,” to “TWNK” and “TWNKW”.

As a result of the Business Combination, for accounting purposes, Hostess Brands, Inc. is the acquirer and Hostess Holdings is the acquired party and accounting predecessor. Our financial statement presentation includes the financial statements of Hostess Holdings and its subsidiaries as “Predecessor” for periods prior to the completion of the Business Combination and of Hostess Brands, Inc., including the consolidation of Hostess Holdings and its subsidiaries, for periods from and after the Closing Date (referred to as the “Successor”).

On May 10, 2016, the Predecessor purchased the stock of Superior Cake Products, Inc. (“Superior”) located in Southbridge, Massachusetts. Superior manufactures and distributes éclairs, madeleines, brownies, and iced cookies sold in the “In-Store Bakery” section of retailers.

In the Consolidated Statements of Operations, amortization of customer relationships (previously within general and administrative) have been presented separately from general and administrative in the current period presentation, with conforming reclassifications made for the prior period presentation. In the Consolidated Balance Sheets, customer trade allowances (previously netted as an allowance against trade accounts receivable) are presented in current liabilities, with conforming reclassifications made for the prior period presentation.

The Company has two reportable segments: Sweet Baked Goods and Other.

#### **Basis of Presentation**

In the opinion of management, the unaudited consolidated financial statements include all adjustments that are of a normal and recurring nature that are necessary for the fair presentation of the Company's financial position and of the results of operations and cash flows for the periods presented. The results of operations are not necessarily indicative of the results to be expected for the full fiscal year. The accompanying unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2016.

#### **Principles of Consolidation**

The consolidated financial statements included herein have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and the rules and regulations of Securities and Exchange Commission ("SEC"). The accompanying consolidated financial statements include the accounts of the Company and its majority-owned or controlled subsidiaries, collectively referred to as either Hostess or the Company. All intercompany balances and transactions have been eliminated in consolidation.

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements for the reported amounts of revenues and expenses during the reporting period. Management utilizes estimates, including, but not limited to, valuation and useful lives of tangible and intangible assets, reserves for trade and promotional allowances, workers' compensation and self-insured medical claims. Actual results could differ from these estimates. Certain prior year amounts have been reclassified to conform with current year presentation.

#### **Accounts Receivable**

Accounts receivable represents amounts invoiced to customers for goods that have been received by the customer. As of March 31, 2017 and December 31, 2016, the Company's accounts receivable were \$96.1 million and \$89.2 million, respectively, which have been reduced by allowances for damages occurring during shipment, quality claims and doubtful accounts in the amount of \$2.2 million and \$1.9 million, respectively. In addition, there are customer trade allowances of \$36.4 million and \$36.7 million as of March 31, 2017 and December 31, 2016, respectively, in current liabilities in the Consolidated Balance Sheets.

#### **Inventories**

Inventories are stated at the lower of cost or market on a first-in first-out basis. The Company estimates its costs for ingredients, packaging, direct labor and overhead prior to the beginning of each period for the Company's expected production costs for its various products.

Abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) are expensed in the period they are incurred.

The components of inventories are as follows:

<b>(In thousands)</b>	<b>March 31, 2017</b>		<b>December 31, 2016</b>	
	<b>(Successor)</b>		<b>(Successor)</b>	
Ingredients and packaging	\$ 13,855		\$ 12,712	
Finished goods	15,363		14,229	
Inventory in transit to customers	2,871		3,503	
	<b>\$ 32,089</b>		<b>\$ 30,444</b>	

### **Impairment of Property and Equipment**

For the three months ended March 31, 2017 (Successor), the Company did not have any impairments. For the three months ended March 31, 2016 (Predecessor), the Company closed multiple production lines at the Indianapolis, Indiana bakery and transitioned production to other facilities. The Company recorded an impairment loss of \$7.3 million, related to equipment that the Company had idled, or which otherwise qualified for impairment. The measurement of this loss was considered to be based on Level 3 inputs within the fair value measurement hierarchy as defined in the accounting guidance.

### **Software Costs**

Included in the caption “Other assets” in the Consolidated Balance Sheets is capitalized software in the amount of approximately \$7.3 million and \$7.4 million at March 31, 2017 and December 31, 2016, respectively. Capitalized software costs are amortized over their estimated useful life of five years commencing when such assets are ready for their intended use. Software amortization expense included in general and administrative was \$0.6 million and \$0.4 million for the three months ended March 31, 2017 (Successor) and 2016 (Predecessor), respectively.

### **Bakery Shutdown Costs**

On October 17, 2014 (Predecessor), the Company closed its Schiller Park, Illinois bakery and completed the sale of the bakery in May 2016. For the three months ended March 31, 2016 (Predecessor), the Company incurred \$0.2 million in bakery shutdown costs associated with utilities, insurance, maintenance, and taxes related to the assets that were held for sale.

### **Concentrations**

The Company has one customer that accounted for 10% or more of the Company’s total net revenue. The percentage of total net revenues for this customer is presented below by segment:

<u>(% of Consolidated Net Revenues)</u>	<b>Three Months Ended March 31, 2017</b>		<b>Three Months Ended March 31, 2016</b>	
	<b>(Successor)</b>	<b>(Predecessor)</b>	<b>(Successor)</b>	<b>(Predecessor)</b>
Sweet Baked Goods	18.3 %		22.0 %	
Other	0.7 %		—	
<b>Total</b>	<b>19.0 %</b>		<b>22.0 %</b>	

### **Advertising Costs**

Advertising costs, through both national and regional media, are expensed in the period in which the advertisements are run. These costs totaled \$0.8 million and \$1.1 million for the three months ended March 31, 2017 (Successor), and 2016 (Predecessor), respectively. These costs are recorded within advertising and marketing expense on the consolidated statement of operations.

### **New Accounting Pronouncements**

In January 2017, the FASB issued Accounting Standards Update No. 2017-4 (“ASU 2017-4”), Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-4 eliminates Step 2 from the goodwill impairment test. Step 2 required an entity to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in a business combination. Instead, an entity should perform its goodwill impairment test and recognize an impairment charge by comparing the fair value of a reporting unit with its carrying amount. ASU 2017-4 will become effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company has early adopted ASU 2017-4 as of March 31, 2017 and does not expect the adoption of ASU 2017-4 to have a material impact on its consolidated financial position, results of operations or cash flows. Our goodwill impairment tests have not proceeded to Step 2 in any measurement period.

In February 2016, the FASB issued ASU No. 2016-02, Leases (“ASU 2016-02”), which is intended to improve financial reporting about leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by lease terms of more than 12 months. This standard will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), (“ASU 2014-09”), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2019. Companies may elect to adopt this application as of the original effective date for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. In March 2016 and April 2016, the FASB issued ASU No. 2016-08 and ASU No. 2016-10, respectively, which clarifies the implementation guidance on principal versus agent considerations and also identifies performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. Based on the analysis conducted to date, the Company does not believe the impact upon adoption will be material to its consolidated financial statements. The Company plans to adopt the standard in the first quarter of 2019 under the cumulative effect transition method.

The planned adoption dates for all standards not yet implemented are based on the Company’s current classification as an Emerging Growth Company as defined in the Jumpstart Our Business Startups Act (JOBS Act). If this classification changes, we will reevaluate our timeline for implementing these standards.

## **2. Stock-Based Compensation**

### ***Hostess Brands, Inc. 2016 Equity Incentive Plan (Successor)***

The Hostess Brands, Inc. 2016 Equity Incentive Plan (the 2016 Plan) provides for the grant of various equity-based incentive awards to directors of the Company, certain members of Company management, and service providers to the Company. The types of equity-based awards that may be granted under the 2016 Plan include: stock options, stock appreciation rights (SARs), restricted stock, restricted stock units (RSUs), and other stock-based awards. There are 7,150,000 registered shares of Class A common stock reserved for issuance under the 2016 Plan. All awards issued under the 2016 Plan may only be settled in shares of Class A common stock.

#### *Restricted Stock Units*

During the three months ended March 31, 2017, the following RSUs have been granted under the 2016 Plan:

- On January 25, 2017, the Company granted 22,732 RSUs to directors of the Company. The units vest on November 4, 2017. These awards only contain service conditions.
- On March 23, 2017, the Company granted 297,500 RSUs to certain members of management. One-third of the units vest at each of the following dates; January 1, 2018, November 4, 2018, and 2019. Vesting is dependent upon positive earnings per share for the fiscal year ending immediately prior to the vesting date. Management has determined it is probable that these performance conditions will be met.
- On March 23, 2017, the Company granted 352,680 RSUs to certain members of management. One-third of the units vest at each of the following dates; November 4, 2017, 2018, and 2019. These awards only contain service conditions.
- On March 23, 2017 the Company granted 688,313 RSUs to certain members of management. The units vest on December 31, 2019. At the end of each of three annual performance periods, ending December 31, 2017, 2018 and 2019, a portion of the units will be banked if the Company achieves certain EBITDA targets. Banked shares continue to be subject to the December 31, 2019 vesting date. Management has determined it is probable that a portion of the EBITDA target will be met for the 2017 annual performance period. Depending on actual performance during each performance period, awardees have the opportunity to bank up to 225% of the granted units.

For the three months ended March 31, 2017 (Successor), \$0.3 million of compensation expense related to the RSUs was recognized within general and administrative expenses on the consolidated statement of operations. If the vesting requirements of the RSUs are not satisfied, or the performance conditions are not attained, the award will be forfeited. The fair value of the RSUs was calculated based on the closing market value of the Company's common stock on the date of grant and management's assumption that there will be no forfeitures.

The following table summarizes the activity of the Company's unvested RSUs for the three months ended March 31, 2017:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Granted January 25, 2017	\$ 22,732	\$ 14.72
Granted March 23, 2017	1,338,493	15.78
Total Granted	<u>1,361,225</u>	<u>15.76</u>
Forfeited	—	—
Vested	—	—
Unvested as of March 31, 2017	<u>\$ 1,361,225</u>	<u>\$ 15.76</u>

As of March 31, 2017, there was \$20.7 million of total unrecognized compensation cost related to non-vested RSUs granted under the 2016 Plan; that cost is expected to be recognized over the vesting periods as described above.

#### *Restricted Stock Awards*

On March 23, 2017, the Company granted 435,000 shares of restricted stock to a Company executive under the 2016 Plan. One-third of the shares vest on each of the following dates: January 1, 2018, November 4, 2018, and 2019. Vesting at each date is dependent upon positive earnings per share for the fiscal year ending immediately prior to the vesting date. Each restricted stock award had a grant date fair value based on the closing price of the Company's common stock on the grant date and management's assumption that there will be no forfeitures.

Management has determined that the shares of restricted stock are unvested stock awards as defined by ASC 718. If the vesting requirements of a restricted stock award are not satisfied, or the performance conditions not attained, the award will be forfeited and the shares of Class A common stock subject to the award shall be returned to the Company.

As of March 31, 2017, there was \$6.7 million of total unrecognized compensation cost related to the non-vested restricted stock; that cost is expected to be recognized over the vesting periods described above. For the three months ended March 31, 2017 (Successor), the Company recognized expense of \$0.2 million related to the restricted stock awards within general and administrative expenses on the consolidated statement of operations.

The following table summarizes the activity of the Company's restricted stock awards for the three months ended March 31, 2017:

	Shares of Restricted Stock	Weighted Average Grant Date Fair Value
Granted March 23, 2017	435,000	\$ 15.78
Forfeited	—	—
Vested	—	—
Unvested as of March 31, 2017	<u>435,000</u>	<u>\$ 15.78</u>

#### *Stock Options*

On March 23, 2017, the Company granted 1,004,050 stock options to certain members of management under the Plan. The stock options vest in four equal installments on November 4, 2017, 2018, 2019 and 2020. The stock options expire on March 22, 2027. If the vesting requirements of a stock option are not satisfied, the stock option will be forfeited.

The grant date fair value of \$5.04 per option was estimated using the Black-Scholes option-pricing model (level 3) with the following assumptions:

	Three Months Ended March 31, 2017
Expected volatility <sup>(1)</sup>	27.57%
Expected dividend yield <sup>(2)</sup>	—%
Expected option term <sup>(3)</sup>	6.25 years
Risk-free rate <sup>(4)</sup>	2.13%

- (1) The expected volatility assumption was calculated based on a peer group analysis of stock price volatility with a 6.25 year look back period ending on the grant date.
- (2) As of March 31, 2017, we have not paid any dividends on our common stock. As of the stock option grant date, we did not anticipate paying any dividends on our common stock over the term of the stock options. Option holders have no right to dividends prior to the exercise of the options.
- (3) We utilized the simplified method to determine the expected term of the stock options since we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term.
- (4) The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant which corresponds to the expected term of the stock options.

As of March 31, 2017, there was \$5.1 million of total unrecognized compensation cost related to non-vested stock options outstanding under the 2016 Plan; that cost is expected to be recognized over the vesting periods described above. For the three months ended March 31, 2017 (Successor), there was \$8.0 thousand of expense related to the stock options recognized within general and administrative costs on the consolidated statement of operations.

The following table summarizes the activity of the Company's unvested stock options for the three months ended March 31, 2017 (Successor):

	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Outstanding as of January 1, 2017	—	—	—	—
Granted March 23, 2017	1,004,050	6.25	\$ 15.78	\$ 5.04
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding as of March 31, 2017	<u>1,004,050</u>	<u>6.25</u>	<u>\$ 15.78</u>	<u>\$ 5.04</u>
Exercisable as of March 31, 2017	—	—	—	—

#### *Related Party Stock Awards*

See note 13 for information regarding additional equity awards not issued under the 2016 or 2013 Plans.

#### *Hostess Management, LLC Equity Interest Plan (Predecessor)*

The Predecessor established a profits interest plan under the 2013 Hostess Management, LLC Equity Incentive Plan ("2013 Plan") to allow members of the management team to participate in the success of the Predecessor. The 2013 Plan consisted of an approximate 9% ownership interest in the Predecessor's subsidiary, New Hostess Holdco, LLC. Hostess Management had three classes of units and required certain returns to ranking classes before other classes participated in subsequent returns of Hostess Management.

The Predecessor recognized unit-based compensation expense of \$0.2 million for the three months ended March 31, 2016 (Predecessor), within general and administrative expense on the consolidated statement of operations. All outstanding units under the 2013 Plan were redeemed and the 2013 Plan was terminated on November 4, 2016. As of December 31, 2016, there were no outstanding units.

### **3. Property and Equipment**

Property and equipment consists of the following:

<b>(In thousands)</b>	<b>March 31, 2017 (Successor)</b>	<b>December 31, 2016 (Successor)</b>
Land and buildings	\$ 30,712	\$ 30,275
Machinery and equipment	114,666	112,221
Construction in progress	17,239	12,334
	<u>162,617</u>	<u>154,830</u>
Less accumulated depreciation	(4,444)	(1,606)
	<u>\$ 158,173</u>	<u>\$ 153,224</u>

Depreciation expense was \$2.8 million and \$2.1 million for the three months ended March 31, 2017 (Successor), and 2016 (Predecessor), respectively.

### **4. Segment Reporting**

The Company has two reportable segments: Sweet Baked Goods and Other. The Company's Sweet Baked Goods segment consists of sweet baked goods that are sold under the Hostess® and Dolly Madison® brands. Other consists of Hostess® branded bread and buns, frozen retail (which consists of deep-fried Twinkies®, launched in August 2016), "In-Store Bakery," or "ISB" (which includes Superior, which we purchased in May 2016, and manufactures and distributes eclairs, madeleines, brownies, and iced cookies in the ISB section of retailers) and licensing.

The Company evaluates performance and allocates resources based on net revenue and gross profit. Information regarding the operations of these reportable segments is as follows:

<u>(In thousands)</u>	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
	(Successor)	(Predecessor)
Net revenue:		
Sweet Baked Goods	\$ 168,432	\$ 154,727
Other	16,106	5,490
Net revenue	<u>\$ 184,538</u>	<u>\$ 160,217</u>
Depreciation and amortization:		
Sweet Baked Goods	\$ 8,624	\$ 2,677
Other	642	—
Depreciation and amortization	<u>\$ 9,266</u>	<u>\$ 2,677</u>
Gross profit:		
Sweet Baked Goods	\$ 74,876	\$ 68,393
Other	4,419	1,932
Gross profit	<u>\$ 79,295</u>	<u>\$ 70,325</u>
Capital expenditures (1):		
Sweet Baked Goods	\$ 7,916	\$ 6,427
Other	374	—
Capital expenditures	<u>\$ 8,290</u>	<u>\$ 6,427</u>

- (1) Capital expenditures consists of purchases of property and equipment and acquisition and development of software assets paid in cash or acquired through accounts payable during the three months ended March 31, 2017 (Successor) and 2016 (Predecessor).

Total assets by reportable segment is as follows:

<u>(In thousands)</u>	March 31, 2017	December 31, 2016
	(Successor)	(Successor)
Total segment assets:		
Sweet Baked Goods	\$ 2,662,118	\$ 2,633,758
Other	212,040	214,134
Total segment assets	<u>\$ 2,874,158</u>	<u>\$ 2,847,892</u>

## 5. Goodwill and Intangible Assets

Goodwill and intangible assets as of March 31, 2017 and December 31, 2016 were recognized as part of preliminary purchase price allocation of the Business Combination as of the Closing Date. The amount allocated to goodwill and other intangible assets is subject to final valuation adjustments. These adjustments could have a material impact on goodwill and other intangible assets. For the three months ended March 31, 2017, there were no adjustments to the preliminary purchase price allocation.

Intangible assets consist of the following:

<u>(In thousands)</u>	March 31, 2017	December 31, 2016
	(Successor)	(Successor)
Intangible assets with indefinite lives (Trademarks and Trade Names)	\$ 1,408,848	\$ 1,408,848
Intangible assets with definite lives (Customer Relationships)	542,011	542,011
Less accumulated amortization (Customer Relationships)	(9,788)	(3,916)
Intangible assets, net	<u>\$ 1,941,071</u>	<u>\$ 1,946,943</u>

Amortization expense was \$5.9 million and \$0.2 million for the three months ended March 31, 2017 (Successor) and 2016 (Predecessor), respectively. The unamortized portion of customer relationships will be expensed over their remaining useful life, from 18 to 23 years. The weighted-average amortization period as of March 31, 2017 for customer relationships was 22.3 years. Future expected amortization expense is as follows:

<b>(In thousands)</b>		
Remainder of 2017		\$ 17,983
2018		23,977
2019		23,977
2020		23,977
2021		23,977
2022 and thereafter		\$ 418,332

## 6. Accrued Expenses

Included in accrued expenses are the following:

<b>(In thousands)</b>	March 31, 2017	December 31, 2016
	(Successor)	(Successor)
Annual incentive bonuses	\$ 2,167	\$ 5,997
Payroll, vacation and other compensation	2,874	5,492
Self-insurance reserves	2,065	1,720
Accrued interest	112	4,885
Current income taxes payable	4,527	2
Workers compensation reserve	1,572	1,321
Other	2,277	2,239
	<hr/> <u>\$ 15,594</u>	<hr/> <u>\$ 21,656</u>

## 7. Debt

A summary of the carrying value of the debt and the capital lease obligation is as follows:

<b>(In thousands)</b>	March 31, 2017	December 31, 2016
	(Successor)	(Successor)
First Lien Term Loan (4.0% as of March 31, 2017)		
Principal	\$ 996,253	\$ 998,750
Unamortized debt premium and issuance costs	5,146	5,396
	<hr/> <u>1,001,399</u>	<hr/> <u>1,004,146</u>
Capital lease obligation (6.8%)		
Total debt and capital lease obligation	686	724
Less: Amounts due within one year	1,002,085	1,004,870
Long-term portion	(11,496)	(11,496)
	<hr/> <u>\$ 990,589</u>	<hr/> <u>\$ 993,374</u>

At March 31, 2017, minimum debt repayments under the First Lien Term Loan are due as follows:

<b>(In thousands)</b>	\$	9,491
Remainder of 2017	\$	9,491
2018	\$	9,988
2019	\$	9,988
2020	\$	9,988
2021	\$	9,988
2022 and thereafter	\$	948,810

#### ***Revolving Credit Facility***

The Company had no outstanding borrowings under its Revolving Credit Agreement (the “Revolver”) as of March 31, 2017. See Note12. Commitments and Contingencies for information regarding the letters of credits, which reduce the amount available for borrowing under the Revolver. Interest expense from the Revolver debt fee amortization was \$0.1 million for the three months ended March 31, 2016 (Predecessor).

#### **8. Equity**

The Company’s authorized common shares consist of three classes: 200,000,000 shares of Class A common stock, 50,000,000 shares of Class B common stock, and 10,000,000 shares of Class F common stock (none of which were issued and outstanding at March 31, 2017 or December 31, 2016). As of March 31, 2017 and December 31, 2016, there were 98,685,917 and 98,250,917 shares of Class A common stock issued and outstanding, respectively. At March 31, 2017 and December 31, 2016 there were 31,704,988 shares of Class B common stock issued and outstanding.

Shares of Class A common stock and Class B common stock have identical voting rights. However, shares of Class B common stock do not participate in earnings or dividends of the Company. Ownership of shares of Class B common stock is restricted to owners of Class B units in Hostess Holdings. Class B units in Hostess Holdings may be exchanged (together with the cancellation of an equivalent number of shares of Class B common stock) by the holders thereof for, at the election of the Company, shares of Class A common stock or the cash equivalent of such shares.

As of March 31, 2017 and December 31, 2016, there were 37,500,000 public warrants and 19,000,000 private placement warrants outstanding. Each warrant entitles its holder to purchase one half of one share of our Class A common stock at an exercise price of \$5.75 per half share, to be exercised only for a whole number of shares of our Class A common stock. The warrants became exercisable 30 days after the completion of the Business Combination on November 4, 2016 and expire five years after that date, or earlier upon redemption or liquidation. Once the public warrants become exercisable, the Company may call the outstanding warrants for redemption at a price of \$0.01 per warrant, if the last sale price of the Company’s common stock equals or exceeds \$24.00 per share for any 20 trading days within a 30 trading day period ending on the third business day before the Company sends the notice of redemption to the warrant holders. The private placement warrants, however, are nonredeemable so long as they are held by our Sponsor or its permitted transferees.

#### **9. Earnings per Share**

Basic earnings per share is calculated by dividing net income attributable to the Company’s Class A shareholders for the period by the weighted average number of Class A common shares outstanding for the period excluding non-vested restricted stock awards. In computing dilutive earnings per share, basic earnings per share is adjusted for the assumed issuance of all applicable potentially dilutive share-based awards, including: public and private placement warrants, RSUs, restricted stock awards, and stock options.

Below are basic and diluted net loss per share for the three months ended March 31, 2017 (Successor):

**Numerator:**

Net income attributable to Class A shareholders (in thousands)	\$ 15,832
<b>Denominator:</b>	
Weighted-average Class A shares outstanding - basic (excluding non-vested restricted stock awards)	98,250,917
Dilutive effect of warrants	6,521,341
Dilutive effect of restricted stock awards and RSUs	1,629
Weighted-average shares outstanding - diluted	<u>104,773,887</u>
Net income per Class A share - basic	\$ 0.16
Net income per Class A share - dilutive	<u>\$ 0.15</u>

The anti-dilutive effect of stock options was excluded from the computation of diluted net income per share because the assumed proceeds from the awards' exercise was greater than the average market price of the common shares.

## 10. Income Taxes

The Company is subject to U.S. federal and state and local taxes on its allocable portion of the income of Hostess Holdings, a partnership for U.S. federal and most applicable state and local taxes. As a partnership, Hostess Holdings is not itself subject to U.S. federal and certain state and local income taxes. The operations of Hostess Holdings include those of its C Corporation subsidiaries.

The income tax expense in the accompanying consolidated statement of operations is based on an estimate of the Company's annualized effective income tax rate. The effective tax rate is estimated at 29.2%. The Company's effective tax rate differs from the statutory rate primarily due to the portion of net income attributed to the non-controlling interest which represents an ownership interest in a partnership for income tax purposes.

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the accompanying consolidated balance sheets. The recognition of deferred tax assets is based on management's belief that it is more likely than not that the tax benefits associated with temporary differences, net operating loss carryforwards and tax credits will be utilized. The Company is in an overall net deferred tax liability position of \$359.3 million and \$353.8 million as of March 31, 2017 and December 31, 2016, respectively, primarily due to temporary differences in the book basis as compared to the tax basis of its investment in Hostess Holdings.

The Company does not believe it has any significant uncertain tax positions and therefore has no unrecognized tax benefits at March 31, 2017, that if recognized, would affect the annual effective tax rate. Interest and penalties related to income tax liabilities, if incurred, are included in income tax expense in the consolidated statement of operations.

## **11. Tax Receivable Agreement**

The tax receivable agreement was entered into by the Company in connection with the Business Combination (the “Tax Receivable Agreement”) and generally provides for the payment by the Company to the Legacy Hostess Equityholders of 85% of the net cash savings, if any, in U.S. federal, state and local income tax that the Company actually realizes (or is deemed to realize in certain circumstances) in periods after the closing of the Business Combination (which periods may extend, unless the Tax Receivable Agreement is terminated early in accordance with its terms, for more than 15 years following any exchange of Class B Units of Hostess Holdings for shares of the Company’s Class A common stock or the cash equivalent thereof) as a result of (i) certain increases in tax basis resulting from the Business Combination; (ii) certain tax attributes of Hostess Holdings and its subsidiaries existing prior to the Business Combination and prior to subsequent exchanges of Class B Units; (iii) certain increases in tax basis resulting from exchanges of Class B Units; (iv) imputed interest deemed to be paid by the Company as a result of payments it makes under the Tax Receivable Agreement; and (v) certain increases in tax basis resulting from payments the Company makes under the Tax Receivable Agreement. The Company will retain the benefit of the remaining 15% of these cash savings. Certain payments under the Tax Receivable Agreement will be made to Legacy Hostess Equityholders in accordance with specified percentages, regardless of the source of the applicable tax attribute. Significant inputs used to preliminarily estimate the future expected payments include a tax savings rate of approximately 40%.

As of March 31, 2017 the future expected payments under the Tax Receivable Agreement are as follows:

<b>(In thousands)</b>	\$	—
Remainder of 2017	\$	—
2018	13,838	9,744
2019	9,744	9,475
2020	9,475	9,236
2021	9,236	
Thereafter	\$	123,091

## **12. Commitments and Contingencies**

### ***Accruals and the Potential Effect of Litigation***

Liabilities related to legal proceedings are recorded when it is probable that a liability has been incurred and the associated amount can be reasonably estimated. Where the estimated amount of loss is within a range of amounts and no amount within the range is a better estimate than any other amount, the minimum amount is accrued.

As additional information becomes available, the potential liabilities related to these matters are reassessed and the estimates revised, if necessary. These accrued liabilities are subject to change in the future based on new developments in each matter, or changes in circumstances, which could have a material effect on the Company’s financial condition and results of operations.

In the fourth quarter of 2015, the Company gave notice of termination of its broker agreement with National Frozen Distribution Consultants, LLC (“NFDC”) for cause under the terms of the agreement. Thereafter, the Company received a demand for arbitration from NFDC claiming damages of approximately \$15.0 million plus attorney’s fees and costs for breach of a confidentiality agreement, violation of the Missouri Uniform Trade Secrets Act, breach of contract, breach of the implied covenant of good faith and fair dealing and breach of fiduciary duty and seeking a permanent injunction. Since that time, NFDC has dropped the Missouri Uniform Trade Secrets Act and breach of fiduciary duty claims and is now seeking damages of approximately \$12.0 million plus attorney’s fees and costs. The Company initially filed counterclaims for negligent misrepresentation and unjust enrichment but has since dropped the unjust enrichment claim. The Company continues to vigorously defend this action.

From time to time, the Company is subject to various other legal actions, lawsuits, claims and proceedings related to products, employment, environmental regulations, and other matters incidental to its businesses.

Based upon information presently known, the Company does not believe that the ultimate resolution of such matters will have a material effect on the Company's financial position, although the final resolution of such matters could have a material effect on its results of operations or cash flows in the period of settlement.

#### **Contractual Commitments**

The Company has entered into various long-term arrangements through advance purchase contracts to lock in prices for certain high-volume raw materials, packaging components and fuel for normal product production requirements. These advance purchase arrangements are contractual agreements and can only be canceled with a termination penalty that is based upon the current market price of the commodity at the time of cancellation. These agreements qualify for the "normal purchase" exception under ASC 815; therefore, the purchases under these contracts are included as a component of cost of goods sold.

Contractual commitments were as follows:

<b>(In millions)</b>	<b>Total Committed</b>	<b>Commitments within 1 year</b>	<b>Commitments beyond 1 year</b>
Ingredients	\$ 83.6	\$ 63.0	\$ 20.6
Packaging	\$ 12.3	\$ 9.9	\$ 2.4

#### **Letters of Credit**

In April 2016 and April 2013, the Company entered into Letter of Credit arrangements to provide for the issuance of standby letters of credit in the amount of \$1.0 million and \$1.8 million, respectively. The arrangements support the collateral requirements for insurance. The Letters of Credit are 100% secured through our Revolver.

### **13. Related Party Transactions**

Prior to the Business Combination, the Company was party to an agreement to employ Mr. Metropoulos as the Executive Chairman. The agreement, dated April 2013, included payment of an annual salary, a performance bonus at the discretion of the board of directors, and expenses related to the use of his personal aircraft. For the three months ended March 31, 2016 (Predecessor), \$1.2 million was expensed by the Company for this compensation agreement. The agreement with Mr. Metropoulos was terminated in connection with the Business Combination.

For periods prior to the Business Combination, related party expenses consisted of the normal annual cash payments associated with our employment arrangements with Mr. Metropoulos as Chief Executive Officer and/or Executive Chairman. In connection with the Business Combination Mr. Metropoulos became party to new employment arrangements with the Company and its subsidiaries. For the Successor, related party expenses consisted of a grant of Class B units of Hostess Holdings and equivalent shares of Class B common stock of the Company awarded to Mr. Metropoulos under such new employment arrangements. Following the consummation of the Business Combination, the expense associated with Mr. Metropoulos's employment arrangements are estimated to be approximately \$0.3 million annually.

As part of the Business Combination, the Company agreed to grant future shares of Class A common stock or Class B units of Hostess Holdings and equivalent shares of Class B common stock of the Company to an entity owned by Mr. Metropoulos if certain EBITDA thresholds are met for the year ended December 31, 2017. The potential grants under this arrangement are between zero and 5.5 million shares. Based on the nature of the arrangement, for U.S. GAAP purposes the potential grants are considered to be compensation for future services to be provided by Mr. Metropoulos. In order to receive 2.75 million shares under this agreement, adjusted EBITDA (as calculated pursuant to the terms of the Master Transaction Agreement entered into in connection with the Business Combination referred to below as "MTA EBITDA"), for the year ended December 31, 2017 must be greater than \$240.5 million. If MTA EBITDA is greater than \$245.5 million, an additional 2.75 million shares will be awarded. As of March 31, 2017, Management determined it was not probable that the Company would meet the 2017 MTA EBITDA thresholds.

Under the terms of Mr. Metropoulos' employment agreement, the Company is obligated to grant additional equity (in the form of either shares of Class A common stock of the Company, or Class B units of Hostess Holdings and equivalent shares of Class B common stock of the Company) to Mr. Metropoulos if MTA EBITDA thresholds are met for the year ended December 31, 2018. The potential grants range from zero to 2.75 million shares. In order to receive 1.375 million shares under this agreement, MTA EBITDA for the year ended December 31, 2018 must be greater than \$257.8 million. If MTA EBITDA is greater than \$262.8 million, an additional 1.375 million shares will be awarded. As of March 31, 2017, management determined it was not probable that the Company would meet the 2018 MTA EBITDA thresholds.

#### **14. Subsequent Events**

On April 7, 2017, the Company entered into an interest rate swap contract with a counter party to make a series of payments based on a fixed interest rate of 1.78% and receive a series of payments based on the greater of LIBOR or 0.75%. Both the fixed and floating payment streams are based on a notional amount of \$500 million at the inception of the contract and will be reduced by \$100 million each year of the five year contract. The Company entered into the contract to hedge the variable rate on the First Lien Term Loan.

On April 19, 2017, certain equity holders of the Company sold 23.1 million shares of the Company's Class A common through an underwritten public offering. The Company paid the expenses, other than underwriting discounts, associated with the sale of shares, but did not receive any proceeds from the sale. In connection with this public offering, 600,000 Class B units of Hostess Holdings and the equivalent shares of Class B common stock of the Company were exchanged for 600,000 shares of Class A common stock (which were sold to the public).

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Cautionary Note Regarding Forward Looking Statements**

This Quarterly Report on Form 10-Q ("Quarterly Report") contains statements reflecting our views about our future performance that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve substantial risks and uncertainties. All statements contained in this Quarterly Report other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. Statements that constitute forward-looking statements are generally identified through the inclusion of words such as "believes," "expects," "intends," "estimates," "projects," "anticipates," "will," "plan," "may," "should," or similar language. Statements addressing our future operating performance and statements addressing events and developments that we expect or anticipate will occur are also considered as forward-looking statements. All forward-looking statements included herein are made only as of the date hereof. It is routine for our internal projections and expectations to change throughout the year, and any forward-looking statements based upon these projections or expectations may change prior to the end of the next quarter or year. Readers of this Quarterly Report are cautioned not to place undue reliance on any such forward-looking statements. As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different from those expressed or implied by these forward-looking statements. Risks and uncertainties are identified and discussed in Item 1A-Risk Factors in this Quarterly Report on Form 10-Q. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q.

#### **Overview**

We are a United States packaged food company focused on developing, manufacturing, marketing, selling and distributing fresh sweet baked goods virtually coast-to-coast, providing a wide range of snack cakes, donuts, sweet rolls, snack pies and related products. We acquired the Hostess brand and certain strategic assets out of the bankruptcy liquidation proceedings of Old Hostess, its prior owner, free and clear of all past liabilities, in April 2013, and relaunched the brand later that year.

We operate five bakeries and three centralized distribution centers. Our DTW product distribution system allows us to deliver to our customers' warehouses. Our customers in turn distribute to their retail stores and/or distributors.

We have two reportable segments: "Sweet Baked Goods" and "Other". Sweet Baked Goods consists of sweet baked goods that are sold under the Hostess® and Dolly Madison® brands. Other consists of Hostess® branded bread and buns, frozen retail (which consists of deep-fried Twinkies®, launched in August 2016) and "In-Store Bakery," or "ISB" (which includes Superior, which we purchased in May 2016, and which manufactures and distributes eclairs, madeleines, brownies, and iced cookies in the ISB section of retailers), and licensing.

Hostess® is the second leading brand by market share within the Sweet Baked Goods ("SBG") category. For the 52-week period ended March 25, 2017 our market share was 17% per Nielsen's U.S. SBG category data. We have a #1 leading market position within the two largest SBG Segments; Donut Segment and Snack Cake Segment, and have a #2 leading market position in total Sweet Baked Goods, according to Nielsen U.S. total universe for the 52 weeks ended March 25, 2017. The Donut and Snack Cake Segments together account for 49% of the Sweet Baked Goods category's total dollar sales.

#### **Explanatory Note**

Hostess Brands, Inc. (f/k/a Gores Holdings, Inc.) was originally incorporated in Delaware on June 1, 2015 as a special purpose acquisition company (SPAC), formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or other similar business combination with one or more target businesses. On August 19, 2015, Gores Holdings, Inc. consummated its initial public offering (the "IPO"), following which its shares began trading on the Nasdaq Capital Market ("NASDAQ").

On November 4, 2016 (the “Closing Date”), in a transaction referred to as the “Business Combination,” Gores Holdings, Inc. acquired a controlling interest in Hostess Holdings, L.P. (“Hostess Holdings”), an entity owned indirectly by C. Dean Metropoulos and certain equity funds managed by affiliates of Apollo Global Management, LLC (the “Apollo Funds”). Hostess Holdings had acquired the Hostess brand and certain strategic assets out of the bankruptcy liquidation proceedings of its prior owner (“Old Hostess”), free and clear of all past liabilities, in April 2013, and relaunched the Hostess brand later that year.

In connection with the closing of the Business Combination, Gores Holdings, Inc. changed its name to “Hostess Brands, Inc.” and its trading symbols on NASDAQ from “GRSH,” and “GRSHW,” to “TWNK” and “TWNKW”.

Following the Business Combination, Mr. Metropoulos and the Apollo Funds continue as stockholders and Mr. Metropoulos became Executive Chairman of Hostess Brands, Inc. On April 19, 2017, the Apollo Funds completed the public sale of substantially all of their holdings of Class A common stock. Other equityholders also sold shares of Class A common stock through the public sale.

As a result of the Business Combination, for accounting purposes, Hostess Brands, Inc. is the acquirer and Hostess Holdings is the acquired party and accounting predecessor. Our financial statement presentation includes the financial statements of Hostess Holdings and its subsidiaries as “Predecessor” for periods prior to the completion of the Business Combination and of Hostess Brands, Inc., including the consolidation of Hostess Holdings and its subsidiaries, for periods from and after the Closing Date. For convenience, we have also included under “Item 2- Management’s Discussion and Analysis of Financial Condition and Results of Operations” supplemental pro forma information for the three months ended March 31, 2016 that gives effect to the Business Combination as if such transaction had been consummated on January 1, 2016. References in this Quarterly Report to information provided for 2016 on a pro forma basis refer to such supplemental pro forma financial information.

Unless the context otherwise requires, “we,” “us,” “our” and the “Company” refer, for periods prior to the completion of the Business Combination, to Hostess Holdings and its subsidiaries and, for periods upon or after the completion of the Business Combination, to Hostess Brands, Inc. and its subsidiaries, including Hostess Holdings and its subsidiaries. Our “Sponsor” refers to Gores Sponsor, LLC, a Delaware limited liability company and the principal stockholder of Gores Holdings, Inc. prior to the Business Combination, and the “The Gores Group” refers to The Gores Group LLC, an affiliate of our Sponsor. “Metropoulos Entities” refer to Mr. Metropoulos and entities controlled by him that continue to hold an equity stake in us. “Legacy Hostess Equityholders” refer to the Apollo Funds and the Metropoulos Entities, collectively.

## **Principal Components of Operating Results**

### ***Net Revenue***

We generate revenue primarily through selling sweet baked goods and other products under the Hostess® group of brands, which includes iconic products such as Twinkies®, Cup Cakes, Ding Dongs®, Zingers®, HoHo's® and Donettes® and the Dolly Madison® brand and the Superior on Main® group of products (e.g., eclairs, madeleines, brownies and iced cookies). Our product assortment, which includes snack cakes, muffins, donuts and pies, is sold to customers’ warehouses and distribution centers by the case or in display ready corrugate units. Our retail customers then display and sell our products to the end consumer in single-serve, multi-pack or club-pack formats. We sell our products primarily to supermarket chains, national mass merchandisers and convenience stores, along with a smaller portion of our product sales going to dollar stores, vending and club locations.

Our revenues are driven by average net price and total volume of products sold. Factors that impact unit pricing and sales volume include product mix, the cost of ingredients, the promotional activities implemented by our Company and our competitors, industry capacity, new product initiatives and quality and consumer preferences. We do not keep a significant backlog of finished goods inventory, as our fresh baked products are promptly shipped to our distribution centers after being produced and then distributed to customers.

#### ***Cost of Goods Sold***

Cost of goods sold consists of ingredients, packaging, labor, energy, other production costs, warehousing and transportation costs for the distribution of our products to our customers. The cost of ingredients and packaging represent the majority of our total costs of goods sold. All costs that are incurred at the bakeries are included in cost of goods sold. We do not allocate any corporate functions into cost of goods sold.

Our cost of ingredients consists principally of flour, sweeteners, edible oils and cocoa, which are subject to substantial price fluctuations, as is the cost of paper, corrugate, films and plastics used to package our products. The prices for raw materials are influenced by a number of factors, including the weather, crop production, transportation and processing costs, government regulation and policies and worldwide market supply and demand. We also rely on fuel products, such as natural gas, diesel, propane and electricity, to operate our bakeries and produce our products. Fluctuations in the prices of the raw materials or fuel products used in the production, packaging or transportation of our products affect the cost of products sold and our product pricing strategy. We utilize forward buying strategies through short-term and long-term advance purchase contracts to lock in prices for certain high-volume raw materials, packaged components and certain fuel inputs. Through these initiatives, we believe we are able to obtain competitive pricing.

#### ***Advertising and Marketing***

Our advertising and marketing expenses primarily relate to our advertising campaigns, which include social media, radio, billboard, print, online advertising, local promotional events and monthly agency fees. We also invest in wire and corrugate displays delivered to customers to display our products off shelf, field marketing and merchandising to reset and check the store inventory on a regular basis and marketing employment costs.

#### ***Selling Expense***

Selling expenses primarily include sales management, employment, travel, and related expenses, as well as broker fees. We utilize brokers for sales support, including merchandising and order processing.

#### ***General and Administrative***

General and administrative expenses primarily include employee and related expenses for the accounting, planning, customer service, legal, human resources, corporate operations, research and development, purchasing, logistics and executive functions. Also included are professional services relating to our corporate audit and tax fees, legal fees, outsourced fees relating to information technology, transportation planning, and corporate site and insurance costs.

The majority of our research and development spend is dedicated to enhancing and expanding our product lines in response to changing consumer preferences and trends and continuing to enhance the taste of our products. In addition, our research and development organization provides technical support to ensure that our core products are consistently produced in accordance with our high quality standards and specifications. Finally, this department is charged with developing processes to reduce our costs without adversely affecting the quality of our products.

#### ***Related Party Expenses***

For periods prior to the Business Combination, related party expenses consisted of the normal annual cash payments associated with our employment arrangements with Mr. Metropoulos as Chief Executive Officer and/or Executive Chairman. Following the consummation of the Business Combination, the cash expenses associated with Mr. Metropoulos's employment arrangements will be approximately \$0.1 million quarterly.

#### ***Non-Controlling Interest***

Subsequent to the Business Combination, Hostess Brands, Inc. consolidated the financial position and results of operations of Hostess Holdings. Mr. Metropoulos and the Metropoulos Entities hold their equity investment in us primarily through Class B limited partnership units in the Company's subsidiary, Hostess Holdings, ("Class B Units") and an equal number of shares of the Company's Class B common stock ("Class B Stock"). Our Class B Stock has voting, but no economic rights, while Hostess Holdings' Class B Units have economic, but no voting rights. Each Class B Unit, together with a share of Class B Stock held by the Metropoulos Entities, is exchangeable for a share of the Company's Class A common stock (or at the option of the Company, the cash equivalent thereof). The Company holds 100% of the general partnership interest in Hostess Holdings and a majority of the limited partnership interests, and consolidates Hostess Holdings in the Company's Consolidated Financial Statements. The interest of the Metropoulos Entities in Hostess Holdings' Class B Units is reflected in our Consolidated Financial Statements as a noncontrolling interest.

For periods prior to the Business Combination, Hostess Holdings consolidated the financial position and results of operations of New Hostess Holdco, LLC. The portion of New Hostess Holdco, LLC not owned by Hostess Holdings (which constituted a profits interest plan for management) was recognized as a non-controlling interest in its consolidated financial statements.

#### **Factors Impacting Recent Results**

##### ***Long-term Debt Refinancing***

On November 18, 2016, we refinanced our first and second lien term loans (the "Former First and Second Lien Term Loans") into one new first lien term loan in the aggregate principal amount of \$998.8 million and with a maturity date of August 3, 2022 (the "New First Lien Term Loan").

**Unaudited Statement of Operations**  
**Historical and Pro Forma\***

(In thousands, except per share data)	(Successor)		Historical <sup>i</sup> (Predecessor)		Pro forma	
	Three Months Ended March 31, 2017	% of Net Revenues	Three Months Ended March 31, 2016	Pro Forma Adjustments	Three Months Ended March 31, 2016	% of Net Revenues
Net revenue	\$ 184,538	100.0%	\$ 160,217	\$ —	\$ 160,217	100.0%
Cost of goods sold	105,243	57.0	89,892	258 <sup>ii</sup>	90,150	56.3
Gross profit	\$ 79,295	43.0%	\$ 70,325	\$ (258) <sup>iii</sup>	\$ 70,067	43.7%
<b>Operating costs and expenses:</b>						
Advertising and marketing	7,322	4.0	7,199	—	7,199	4.5
Selling expense	8,112	4.4	6,795	—	6,795	4.2
General and administrative	13,183	7.1	9,638	(56) <sup>ii</sup>	9,582	6.0
Amortization of customer relationships	5,872	3.2	156	6,033 <sup>iii</sup>	6,189	3.9
Impairment of property and equipment	—	—	7,267	—	7,267	4.5
Loss on sale/abandonment of property and equipment and bakery shutdown costs	—	—	180	—	180	0.1
Business combination transaction costs	—	—	215	(215) <sup>iv</sup>	—	—
Related party expenses	83	—	1,235	—	1,235	0.8
Total operating costs and expenses	\$ 34,572	18.7%	\$ 32,685	\$ 5,762	\$ 38,447	24.0%
Operating income	44,723	24.2	37,640	(6,020)	31,620	19.7
<b>Other expense:</b>						
Interest expense, net	9,830	5.3	17,849	(4,624) <sup>v</sup>	13,225	8.3
(Gain) loss on debt extinguishment	—	—	—	—	—	—
Other expense	714	0.4	1,254	—	1,254	0.8
Total other expense	\$ 10,544	5.7%	\$ 19,103	\$ (4,624)	\$ 14,479	9.1%
Income before income taxes	34,179	18.5	18,537	(1,396)	17,141	10.7
Income tax expense	9,980	5.4	—	4,883 <sup>vi</sup>	4,883	3.0
Net income	24,199	13.1	18,537	(6,279)	12,258	7.7%
Less: Net income attributable to the non-controlling interest	8,367	4.5	928	3,369 <sup>vii</sup>	4,297	2.7
Net income attributable to Class A shareholders	<u>\$ 15,832</u>	<u>8.6%</u>	<u>\$ 17,609</u>	<u>\$ (9,648)</u>	<u>\$ 7,961</u>	<u>5.0%</u>
<b>Earnings per Class A share:</b>						
Basic	\$ 0.16				\$ 0.08	
Diluted	\$ 0.15				\$ 0.08	
<b>Weighted-average shares outstanding:</b>						
Basic	98,250,917			97,859,217 <sup>viii</sup>	97,589,217	
Diluted	104,773,887			97,589,217 <sup>viii</sup>	97,589,217	

\*For comparative purposes, we are presenting a supplemental unaudited pro forma statement of operations for the three months ended March 31, 2016, and we discuss such pro forma results compared to the Successor's results for the three months ended March 31, 2017 below.

The unaudited pro forma statements of operations for the three months ended March 31, 2016 presents our consolidated results of operations giving pro forma effect to the Business Combination as if it had occurred as of January 1, 2016. The pro forma adjustments are based on available information and upon assumptions that our management believes are reasonable in order to reflect, on a pro forma basis, the impact of these transactions on the historical financial information of our Predecessor and Successor entities, as applicable.

The Business Combination was accounted for using the acquisition method of accounting. The initial estimated fair values of the acquired assets and assumed liabilities as of the Closing Date, which are based on the consideration paid and our estimates and assumptions, are reflected herein. The total purchase price to acquire Hostess Holdings has been allocated to the assets acquired and assumed liabilities of Hostess Holdings, based upon preliminary estimated fair values at the Closing Date. We utilized third-party valuation specialists to assist our management in determining the fair values of the acquired assets and liabilities assumed. As of March 31, 2017, we have not completed our review of the estimated fair value of assets acquired and liabilities assumed at the Closing Date.

The unaudited pro forma financial information contains a variety of adjustments, assumptions and estimates, is subject to numerous other uncertainties and the assumptions and adjustments as described in the accompanying notes hereto and should not be relied upon as being indicative of our results of operations had the Business Combination occurred on January 1, 2016. The unaudited pro forma financial information also does not project our results of operations for any future period or date. We evaluated the impact of the Superior acquisition on the Company's financial statements and concluded that the impact was not significant and did not require nor separately warrant the inclusion of pro forma financial results assuming the acquisition of Superior at January 1, 2016 under applicable SEC rules and regulations or under GAAP. The pro forma adjustments give effect to the items identified in the pro forma table above in connection with the Business Combination.

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- i. The amounts in these columns represent our Hostess Holdings historical results of operations for the period reflected.
  - ii. Represents the adjustment to depreciation expense associated with the allocation of purchase price to property and equipment.
  - iii. Represents additional amortization expense associated with the fair value recognized for customer relationships in connection with the Business Combination.
  - iv. This adjustment consists primarily of legal and professional fees and other costs associated with the Business Combination.
  - v. Represents the reduction in interest expense due to the repayment of Hostess Holdings debt pursuant to the terms of the Business Combination.
  - vi. Represents the effective income tax rate of 28.5%, giving effect to the non-controlling interest, a partnership for income tax purposes.
  - vii. Represents the elimination of historical income attributable to the non-controlling interest and attributes a portion of the pro forma income to the non-controlling interest created in the Business Combination. Income is allocated to the non-controlling interest based on its pro rata share of the total equity of Hostess Holdings.
  - viii. Represents the basic and diluted weighted average number of Class A shares that would have been outstanding had the Business Combination occurred on January 1, 2016. The outstanding warrants were determined not to be dilutive.
-

#### **Reconciliation of Adjusted EBITDA**

Adjusted EBITDA is a non-GAAP financial measure commonly used in our industry and should not be construed as an alternative to net income as an indicator of operating performance or as an alternative to cash flow provided by operating activities as a measure of liquidity (each as determined in accordance with GAAP). Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies. We have included adjusted EBITDA because we believe it provides management and investors with additional information to measure our performance and liquidity, estimate our value and evaluate our ability to service debt.

We define adjusted EBITDA as net income adjusted to exclude (i) interest expense, net, (ii) depreciation and amortization, (iii) income taxes and (iv) as further adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance. These further adjustments are itemized below. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments set forth below. Our presentation of adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

Adjusted EBITDA has important limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. For example, adjusted EBITDA:

- does not reflect our capital expenditures, future requirements for capital expenditures or contractual commitments;
- does not reflect changes in, or cash requirements for, our working capital needs;
- does not reflect the significant interest expenses, or the cash requirements necessary to service interest or principal payments, on our debt;
- does not reflect any cash requirements for the assets being depreciated and amortized that may have to be replaced in the future; and
- does not reflect payments related to income taxes, the tax receivable agreement or distributions to the non-controlling interest to reimburse its tax liability.

Our presentation of adjusted EBITDA does not exclude the normal annual cash payments associated with our employment arrangements with Mr. Metropoulos as the Chief Executive Officer and/or Executive Chairman. These payments were \$0.1 million for the three months ended March 31, 2017 and \$1.2 million for the three months ended March 31, 2016. Following completion of the Business Combination, these cash expenses will be approximately \$0.1 million quarterly.

***Reconciliation of Adjusted EBITDA  
(Unaudited)***

<b><u>(In thousands)</u></b>	<b>Three Months Ended March 31, 2017</b>	<b>Pro Forma Three Months Ended March 31, 2016</b>
Net income	\$ 24,199	\$ 12,258
Plus non-GAAP adjustments:		
Income tax provision	9,980	4,883
Interest expense, net	9,830	13,225
Depreciation and amortization	9,266	9,065
Share-based compensation	i 521	—
Other expense	ii 714	1,254
Impairment of property and equipment	iii —	7,267
Loss on sale/abandonment of property and equipment and bakery shutdown costs	iv —	180
Adjusted EBITDA	<hr/> <hr/> \$ 54,510	<hr/> <hr/> \$ 48,132

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- i. For the three months ended March 31, 2017, we recorded expenses of \$0.5 million related to units awarded under the 2016 Hostess Brands, Inc. Equity Incentive Plan.
  - ii. For the three months ended March 31, 2017, we recorded expenses of \$0.7 million which primarily consisted of legal and professional fees related to a secondary public offering of common stock which occurred in April 2017. For the three months ended March 31, 2016, other expense of \$1.3 million consisted of transaction costs attributable to the pursuit of a potential acquisition that has since been abandoned.
  - iii. For the pro forma three months ended March 31, 2016, we closed multiple production lines at the Indianapolis, Indiana bakery and transitioned production to other facilities resulting in a loss of \$7.3 million.
  - iv. For the three months ended March 31, 2016, we incurred a loss on a sale/abandonment of property and bakery shutdown costs of \$0.2 million, primarily due to utilities, insurance, taxes and maintenance expenses related to the Schiller Park, Illinois bakery.
-

#### ***Net Revenue***

Net revenue was \$184.5 million for the three months ended March 31, 2017, an increase of \$24.3 million, or 15.2%, compared to the historical and pro forma net revenue of \$160.2 million for the three months ended March 31, 2016. This increase was primarily attributed to \$9.7 million of revenue from In-Store Bakery, the initial launch of our 2017 new product initiatives (including Chocolate Cake Twinkies®, Golden Cupcakes, and White Fudge Ding Dongs®, among others), continued growth from our 2016 new product initiatives and increased distribution.

#### ***Cost of Goods Sold and Gross Profit***

Cost of goods sold for the three months ended March 31, 2017 of \$105.2 million represents an increase of \$15.4 million or 17.1% from the historical costs of goods sold of \$89.9 million for the three months ended March 31, 2016 and an increase of \$15.1 million or 16.7% from the pro forma costs of goods sold of \$90.2 million for the three months ended March 31, 2016. The increase in the three months ended March 31, 2017 from both historical and pro forma three months ended March 31, 2016 is primarily attributed to the increase in revenue.

Gross profit was \$79.3 million for the three months ended March 31, 2017, an increase of \$9.0 million, or 12.8%, compared to historical gross profit of \$70.3 million for three months ended March 31, 2016 and an increase of \$9.2 million, or 13.2% compared to historical gross profit of \$70.1 million for the three months ended March 31, 2016. The increase in the three months ended March 31, 2017 from both historical and pro forma three months ended March 31, 2016 is primarily attributed to the increase in revenue.

Gross margin was 43.0% for the three months ended March 31, 2017, compared to historical gross margin of 43.9% for the three months ended March 31, 2016 and 43.7% of pro forma gross margin for the three months ended March 31, 2016. The decrease in margin for three months ended March 31, 2017 from both historical and pro forma gross margin for the three months ended March 31, 2016 is primarily due to product mix which includes our In-Store Bakery segment.

Gross profit for the Sweet Baked Goods segment for the three months ended March 31, 2017 was \$74.9 million, or 44.5% of net revenue, compared to gross profit of \$68.4 million or 44.2% of net revenue for the historical three months ended March 31, 2016 and \$68.1 million, or 44.0% of net revenue, for the pro forma three months ended March 31, 2016. Gross margin increases were due to favorable commodity pricing.

Gross profit for the Other segment for the three months ended March 31, 2017 was \$4.4 million, or 27.4% of net revenue, compared to historical and pro forma gross profit of \$1.9 million, or 35.2% of net revenue for the three months ended March 31, 2016.

#### ***Operating Costs and Expenses***

##### ***Advertising and Marketing***

Advertising and marketing expenses for the three months ended March 31, 2017 of \$7.3 million represents an increase of 1.7% over the historical and pro forma advertising and marketing expenses of \$7.2 million for the three months ended March 31, 2016.

##### ***Selling Expense***

Selling expense increased to \$8.1 million, or 4.4% of revenue for the three months ended March 31, 2017 from \$6.8 million, or 4.2% of revenue on a historical and pro forma basis for the three months ended March 31, 2016 due to the addition of In-Store Bakery operations and increased brokerage costs.

##### ***General and Administrative***

General and administrative expenses for the three months ended March 31, 2017 of \$13.2 million represents an increase of \$3.5 million or 36.8% over historical general and administrative expense of \$9.6 million for the three months ended March 31, 2016 and an increase of \$3.6 million or 37.6% over the pro forma general and administrative expenses of \$9.6 million for the three months ended March 31, 2016. The increase of the first quarter 2017 expenses over both the historical and pro forma basis first quarter 2016 expenses is attributed to increased professional service expenses, increased staffing levels to support our growth, and increased non-cash share-based compensation.

#### ***Amortization of Customer Relationships***

Amortization of customer relationships was \$5.9 million for the three months ended March 31, 2017, compared to historical customer relationships amortization of \$0.2 million for the three months ended March 31, 2016 and pro forma customer relationships amortization of \$6.2 million for the three months ended March 31, 2016. For the first quarter 2016 on a historical basis, amortization expense was based on the valuation of customer relationships acquired from Old Hostess in 2013. The amortization expense for the three months ended March 31, 2017 and the three months ended March 31, 2016 on a pro forma basis reflects the new valuation of the customer relationships acquired through the Business Combination.

#### ***Impairment of Property and Equipment***

For the three months ended March 31, 2016 on a historical and pro forma basis, we recorded an impairment loss of \$7.3 million resulting from the closure of multiple production lines at the Indianapolis, Indiana bakery and the transition of those production lines to other facilities. There was no such activity for the three months ended March 31, 2017.

#### ***Loss on Sale/Abandonment of Property and Equipment and Bakery Shutdown Costs***

For the three months ended March 31, 2016 on both a historical and pro forma basis, the sale/abandonment of property and equipment and bakery shutdown costs of \$0.2 million was attributed to utilities, insurance, taxes, and maintenance expenses related to the closure of our Schiller Park, Illinois bakery. There was no such activity for the three months ended March 31, 2017.

#### ***Related Party Expenses***

Related party expenses were \$0.1 million for the three months ended March 31, 2017 compared to historical and pro forma expenses of \$1.2 million for the three months ended March 31, 2016. These expenses represent payments made to Mr. Metropoulos under the terms of his employment arrangements. Following the Business Combination, the expenses associated with Mr. Metropoulos's employment arrangement are estimated to be \$0.3 million annually.

#### ***Operating Income***

The 18.8% increase in operating income from a historical basis of \$37.6 million for the three months ended March 31, 2016 to \$44.7 million for the three months ended March 31, 2017 is primarily from the increase in sales in 2017 and the impairment loss of \$7.3 million in 2016, offset by additional selling, general and administrative expenses. When considering the additional depreciation and amortization expense resulting from the Business Combination, operating income for the three months ended March 31, 2017 increased \$13.1 million or 41.4% on a pro forma basis from the three months ended March 31, 2016.

#### ***Interest Expense, net***

Our interest expense decreased 44.9% from \$17.8 million for the historical three months ended March 31, 2016 to \$9.8 million for the three months ended March 31, 2017 primarily from the refinancing of our Second Lien Term Loan in November 2016 which resulted in a lower effective interest rate on our outstanding debt. Additionally, \$217 million of principal was repaid as part of the Business Combination. When the interest expense associated with the principal repayment is removed, interest expense for the three months ended March 31, 2017 decreased 25.7% from pro forma interest expense of \$13.2 million for the three months ended March 31, 2016, as a result of the lower effective interest rate.

#### ***Other Expense***

For the three months ended March 31, 2017, the Company recorded other expenses of \$0.7 million which primarily consisted of legal and professional fees related to a secondary public offering of common stock which was completed in April 2017. For the three months ended March 31, 2016, historical and pro forma other expense of \$1.3 million consisted primarily of professional and legal expenses for a potential acquisition that was subsequently abandoned.

#### ***Income Taxes***

The income tax expense of \$10.0 million for the three months ended March 31, 2017 represents the effective rate of 29.2%, giving effect to the non-controlling interest, a partnership for income tax purposes. The increase of 104.4% or \$5.1 million from the pro forma income tax expense of \$4.9 million for the three months ended March 31, 2016 is due to increased taxable income in the first quarter of 2017. There was no historical income tax expense for the three months ended March 31, 2016, as the Company was a partnership for income tax purposes prior to the Business Combination.

## **Adjusted EBITDA**

Adjusted EBITDA was \$54.5 million for the first quarter of 2017, an increase of \$6.4 million, or 13.3%, compared to pro forma adjusted EBITDA of \$48.1 million for the pro forma first quarter of 2016. As a percentage of net revenue, adjusted EBITDA was 29.5% for the first quarter of 2017, compared to pro forma adjusted EBITDA of 30.0% of net revenues in the same period last year. The decrease is primarily due to product mix which includes our In-Store Bakery revenue. See “-Reconciliation of Adjusted EBITDA” above.

## **Segments**

We have two reportable segments: “Sweet Baked Goods” and “Other”. Sweet Baked Goods consists of sweet baked goods that are sold under the Hostess® and Dolly Madison® brands. Other consists of Hostess® branded bread and buns, which we launched in April 2015, frozen retail (which consists of deep-fried Twinkies®, launched in August 2016) and “In-Store Bakery,” or “ISB” (which consists of Superior, which we purchased in May 2016, and manufactures and distributes eclairs, madeleines, brownies, and iced cookies in the ISB section of retailers), and licensing.

The Company evaluates performance and allocates resources based on net revenue and gross profit. Information regarding the operations of these reportable segments is as follows:

<b>(In thousands)</b>	<b>Unaudited Segment Financial Data</b>	
	<b>Three Months Ended March 31, 2017</b>	<b>Three Months Ended March 31, 2016</b>
	<b>(Successor)</b>	<b>(Predecessor)</b>
Net revenue:		
Sweet Baked Goods	\$ 168,432	\$ 154,727
Other	16,106	5,490
Net revenue	<b>\$ 184,538</b>	<b>\$ 160,217</b>
Gross profit:		
Sweet Baked Goods	\$ 74,876	\$ 68,393
Other	4,419	1,932
Gross profit	<b>\$ 79,295</b>	<b>\$ 70,325</b>
Capital expenditures (1):		
Sweet Baked Goods	\$ 7,916	\$ 6,427
Other	374	—
Capital expenditures	<b>\$ 8,290</b>	<b>\$ 6,427</b>

(1) Capital expenditures consists of purchases of property and equipment and acquisition and development of software assets paid in cash or acquired through accounts payable during the three months ended March 31, 2017 (Successor) and 2016 (Predecessor).

We have one customer that accounted for 10% or more of our net revenue. The weighted percent of net revenues for this customer is presented below by segment:

<b>(% of Consolidated Net Revenues)</b>	<b>Unaudited Segment Data</b>	
	<b>Three Months Ended March 31, 2017</b>	<b>Three Months Ended March 31, 2016</b>
	<b>(Successor)</b>	<b>(Predecessor)</b>
Sweet Baked Goods	18.3 %	22.0 %
Other	0.7 %	—
Total	<b>19.0 %</b>	<b>22.0 %</b>

## **Seasonality**

Sweet baked goods revenues tend to be moderately seasonal, with declines during the early winter period, which we believe are attributable to altered consumption patterns during the holiday season. We expect this trend to continue and continue to be applicable to our business. We strive to mitigate the seasonality by running certain targeted promotional campaigns.

### ***Significant and Subsequent Events***

See Note 14 in the Notes to Consolidated Financial Statements in Item 1. Financial Statements.

#### **Acquisition of Superior**

On May 10, 2016, we acquired the stock of Superior for \$51.0 million, including cash. The purchase price was subject to working capital and other purchase price adjustments as described in the stock purchase agreement. Superior is located in Southbridge, Massachusetts and manufactures eclairs, madeleines, brownies, and iced cookies. We acquired Superior to expand our market and product offerings in the “In-Store Bakery” section of retailers.

#### **Liquidity and Capital Resources**

Our primary sources of liquidity are from the cash on the balance sheet, future cash flow generated from operations, and availability under our Revolver (as discussed below). We believe that cash flows from operations and the current cash and cash equivalents on the balance sheet will be sufficient to satisfy the anticipated cash requirements associated with our existing operations for at least the next 12 months. Our ability to generate sufficient cash from our operating activities depends on our future performance, which is subject to general economic, political, financial, competitive and other factors beyond our control. In addition, our future capital expenditures and other cash requirements could be higher than we currently expect as a result of various factors, including any expansion of our business that we undertake, including acquisitions. We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

We had working capital, excluding cash, as of March 31, 2017 and December 31, 2016 of \$30.2 million and \$20.6 million, respectively. We have the ability to borrow under our Revolver to meet obligations as they come due. As of March 31, 2017, we had approximately \$97.2 million available for borrowing, net of letters of credit, under our Revolver.

#### ***Cash Flows from Operating Activities***

Cash flows provided by operating activities for the three months ended March 31, 2017 were \$26.3 million and for the three months ended March 31, 2016 were \$19.0 million. The increase in cash flows provided by operating activities between the two periods is due to increased net income.

#### ***Cash Flows from Investing Activities***

Cash flows used in investing activities for the three months ended March 31, 2017 and 2016 were \$4.9 million and \$3.2 million, respectively. Cash outflows from investing activities include purchases of property and equipment of \$4.5 million for the three months ended March 31, 2017 and \$2.8 million for the three months ended March 31, 2016.

Our property and equipment capital expenditures primarily consisted of strategic growth initiatives, maintenance and productivity improvements. We expect that our cash outflows for capital expenditures will be approximately \$25.0 million to \$35.0 million during the remainder of 2017.

#### ***Cash Flows from Financing Activities***

Cash flows used in financing activities were \$2.5 million for the three months ended March 31, 2017 and \$2.6 million for the three months ended March 31, 2016. In both periods, financing activities were primarily attributed to the scheduled principal payments on long-term debt.

#### ***Long-Term Debt***

We had no outstanding borrowings under our Revolving Credit Agreement (the Revolver) as of March 31, 2017.

As of March 31, 2017, \$996.3 million aggregate principal amount of New First Lien Term Loans and \$2.8 million aggregate principal amount of letters of credit, reducing the amount available under the Revolver, were outstanding. See Note 12 -- “Commitments and Contingencies” to the Consolidated Financial Statements in Item 1 for information regarding the letters of credits.

As of March 31, 2017, the Company was in compliance with the covenants under the New First Lien Term Loan and the Revolver.

## **Commitments and Contingencies**

As of March 31, 2017, the Company has commitments and contingencies for tax receivable arrangements, debt, operating leases, and advance purchase commitments. Refer to Note 12--Commitments and Contingencies to the Consolidated Financial Statements included in Part I, Item 1 on this Quarterly Report on Form 10-Q:

<b>Contractual Commitments</b> <b>(In thousands)</b>	<b>Total Committed</b>	<b>Commitments within 1 year</b>		<b>Commitments beyond 1 year</b>
Tax receivable agreement	\$ 165,384	\$ —		\$ 165,384
New First Term Loan	996,253	9,988		986,265
Interest payments on Term Loan	213,408	39,700		173,708
Corporate office lease (Kansas City, MO)	607	243		364
Corporate office lease (Dallas, TX)	18	18		—
Superior capital lease	686	200		486
Ingredient procurement	83,600	63,000	63,000	83,600
Packaging procurement	12,300	9,900	9,900	12,300
	<b>\$ 1,472,256</b>	<b>\$ 123,049</b>		<b>\$ 1,349,207</b>

### ***Tax receivable agreement***

The tax receivable agreement entered into in connection with the Business Combination (the “Tax Receivable Agreement”) generally provides for the payment by the Company to the Legacy Hostess Equityholders of 85% of the net cash savings, if any, in U.S. federal, state and local income tax that the Company actually realizes (or is deemed to realize in certain circumstances) in periods after the closing of the Business Combination (which periods may extend, unless the Tax Receivable Agreement is terminated early in accordance with its terms, for more than 15 years following any exchange of Class B units of Hostess Holdings for shares of the Company’s Class A common stock or the cash equivalent thereof) as a result of (i) certain increases in tax basis resulting from the Business Combination; (ii) certain tax attributes of Hostess Holdings and its subsidiaries existing prior to the Business Combination and prior to subsequent exchanges of Class B units; (iii) certain increases in tax basis resulting from exchanges of Class B units; (iv) imputed interest deemed to be paid by the Company as a result of payments it makes under the Tax Receivable Agreement; and (v) certain increases in tax basis resulting from payments the Company makes under the Tax Receivable Agreement. The Company will retain the benefit of the remaining 15% of these cash savings. Certain payments under the Tax Receivable Agreement will be made to Legacy Hostess Equityholders in accordance with specified percentages, regardless of the source of the applicable tax attribute. The most significant estimate utilized by management to calculate the corresponding liability is the Company’s future cash tax savings rates, which are projected based on current tax laws and the Company’s historical and projected future tax profile. The amounts recorded in the Consolidated Financial Statements are on an undiscounted basis.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to interest rate market risk.

#### *Market risk on variable-rate financial instruments*

Our First Lien Term Loan and Revolver each bear interest on outstanding borrowings thereunder at variable interest rates. The rate in effect at March 31, 2017 for the outstanding First Lien Term Loan was a LIBOR-based rate of 4.00% per annum. At March 31, 2017, the subsidiary borrower had \$97.2 million available for borrowing, net of letters of credit of \$2.8 million, under its Revolver. At March 31, 2017, the subsidiary borrower had an aggregate principal balance of \$996.3 million outstanding under the First Lien Term Loan. Increases in market interest rates would cause interest expense to increase and earnings before income taxes to decrease. The change in interest expense and earnings before income taxes would be dependent upon the weighted average outstanding borrowings during the reporting period following an increase in market interest rates. An increase or decrease in applicable interest rates of 1% would result in an increase or decrease in interest payable of approximately \$2.5 million for the three months ended March 31, 2017.

To manage the risk related to our variable rate debt, on April 7, 2017, we entered into an interest rate swap contract with a counter party to make a series of payments based on a fixed interest rate of 1.78% and receive a series of payments based on the greater of LIBOR or 0.75%. Both the fixed and floating payment streams are based on a notional amount of \$500 million at the inception of the contract and will be reduced by \$100 million each year of the five year contract.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the three months covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

##### **Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the three months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II**

#### **Item 1. Legal Proceedings**

We are involved in lawsuits, claims and proceedings arising in the ordinary course of business. These matters involve personnel and employment issues, personal injury, contract and other proceedings arising in the ordinary course of business, which have not resulted in any material losses to date. Although we do not expect the outcome of these proceedings to have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, we could incur judgments or enter into settlements or claims that could materially impact our results.

The information required to be furnished by us under this Part II, Item 1 (Legal Proceedings) is incorporated by reference to the information contained in Note 12-- Commitments and Contingencies to the Consolidated Financial Statements included in Part I, Item 1 on this Quarterly Report on Form 10-Q.

#### **Item 1A. RISK FACTORS**

Our risk factors set forth under the "Risk Factors" section of our Annual Report on Form 10-K filed on March 14, 2017. There have been no material changes to our risk factors since the filing of the Form 10-K.

#### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Kansas City, Missouri on May 9, 2017.

HOSTESS BRANDS, INC.

By \_\_\_\_\_

/S/ Thomas A. Peterson

Thomas Peterson  
Executive Vice President, Chief Financial Officer

## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Description</b>
10.1	Form of Restricted Stock Unit Award Agreement
10.2	Form of Restricted Stock Award Agreement
10.3	Form of Performance Unit Award Agreement
10.4	Form of Stock Option Award Agreement
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\*Schedules and exhibits to this Exhibit omitted pursuant to Regulation S-K Item 601(b)(2). The Company agrees to furnish supplementally a copy of any omitted schedules or exhibits to the SEC upon request.

**HOSTESS BRANDS, INC.  
RESTRICTED STOCK UNIT AGREEMENT  
Cover Sheet**

Hostess Brands, Inc., a company incorporated under the laws of the State of Delaware ("Company"), hereby grants an award of restricted stock units ("RSUs") to the individual named below. The terms and conditions of the RSUs are set forth in this cover sheet ("Cover Sheet"), in the attached Restricted Stock Unit Agreement (the "Agreement") and in the Hostess Brands, Inc. 2016 Equity Incentive Plan (the "Plan"). All capitalized terms used but not defined in this Cover Sheet and the Agreement will have the meanings ascribed to such terms in the Plan.

**Granted to:**  
**Date of Grant:**  
**Number of RSUs:**  
**Vesting Schedule:**

By signing this Cover Sheet, you agree to all of the terms and conditions described in this Cover Sheet, in the Agreement and in the Plan.

If you do not sign and return this Cover Sheet within 60 days of the Date of Grant, the Company will have the right to rescind this award.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

HOSTESS BRANDS, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**HOSTESS BRANDS, INC.  
RESTRICTED STOCK UNIT AGREEMENT**

**Right to Shares**

The award of RSUs represents your right to receive, and the Company's obligation to deliver, one share of Common Stock (a "Share") per RSU, subject to the terms and conditions of this Agreement, the Plan and the Cover Sheet.

**Vesting**

The RSUs awarded to you will vest in accordance with the schedule set forth in the Cover Sheet. All unvested RSUs will cease vesting and will be forfeited as of the date your employment with the Company and its Subsidiaries has terminated for any reason.

**Delivery; Settlement**

A number of Shares equal to the number of the RSUs that vest on each Vesting Date will be delivered as soon as practicable and within 60 days following the applicable Vesting Date, and upon such delivery, you shall have no further rights with respect to those RSUs.

**Change of Control**

Notwithstanding the foregoing:  
(A) if there occurs a Change of Control, and this Award does not continue or is not assumed by an acquiror on a substantially equivalent basis, then all RSUs that have not yet vested shall vest immediately prior to the Change of Control; and  
(B) if there occurs a Change of Control, and this Award continues or is assumed by an acquiror on a substantially equivalent basis, and your employment is terminated by the Company or an acquiror without Cause or otherwise under circumstances entitling you to severance under the Company's or acquiror's severance plan within 12 months following the Change of Control, then all RSUs that have not yet vested shall vest immediately on your date of termination.

A number of Shares equal to the number of the RSUs that vest in accordance with the preceding clauses (A) and (B) shall be delivered as soon as practicable and within 60 days following the applicable vesting date described above, and upon such delivery, you shall have no further rights with respect to those RSUs.

**Termination**

Should your employment with the Company and its Subsidiaries terminate for any reason except in connection with a Change of Control as described above, all of your RSUs then unvested and outstanding will terminate, and you will no longer have any rights in respect of such RSUs.

**Termination for Cause; Recoupment**

If your employment is terminated for Cause or if you breach any restrictive covenant agreement between you and the Company or its Subsidiaries, the RSUs, whether or not vested, will immediately terminate.

If at any time within one year after the date on which you receive payment in respect of the RSUs (whether in the form of cash, or Shares), (a) your employment is terminated for Cause or (b) the Committee determines in its reasonable discretion that after termination of your employment for any reason, you engaged in conduct that violated any continuing obligation or duty in respect of the Company or any Subsidiary (including any breach of any restrictive covenant agreement between you and the Company), then, subject to applicable law, upon notice from the Company, you shall repay to the Company any cash or Shares you received pursuant to the RSUs, or if you disposed of any such Shares, the Fair Market Value of such Shares as of the date of disposition.

Nothing in this Agreement shall limit the Company's right of recoupment pursuant to Section 13 of the Plan, including recoupment of payments pursuant to the Company's compensation recovery, "clawback" or similar policy, as may be in effect from time to time.

**Taxes**

You are solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of the RSUs. At the time of taxation, the Company shall have the right to deduct from other compensation, or to withhold Shares in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the RSUs. If Shares are withheld, the value of the Shares withheld may not exceed the minimum applicable tax withholding amount (except as otherwise determined by the Committee in its sole discretion). By accepting this Award, you expressly consent to the withholding of Shares or other amounts payable to you.

**Restrictions on Resale and Settlement**

By signing this Agreement, you agree not to sell any Shares received upon settlement of RSUs at a time when applicable laws, regulations or Company policies prohibit a sale. The Company's obligation to deliver Shares upon settlement of the RSUs shall be subject to applicable laws, rules and regulations and also to such approvals by governmental agencies as may be deemed appropriate to comply with relevant securities laws and regulations, and the Company will not permit the issuance of Shares at a time when such issuance would violate any law, rule, regulation or Company policy, as determined by the Company.

Any Shares issued hereunder, and any cash proceeds realized from the sale of such Shares will be subject to all share retention, trading, and other policies that may be implemented by the Committee or the Board from time to time.

**Transfer of RSUs**

You cannot transfer or assign your RSUs. For instance, you may not sell RSUs or use them as security for a loan. If you attempt to do any of these things, your Award will immediately become invalid.

Regardless of any marital property settlement agreement, the Company or a securities broker, as applicable, is not obligated to recognize your former spouse's interest in your right to RSUs in any way.

**Stockholder Rights; Dividend Equivalent Rights**

You, or your estate or heirs, have no rights as a stockholder of the Company in respect of RSUs unless and until Shares have been delivered in settlement of the RSUs.

No adjustments are made for dividends or other rights if the applicable record date occurs before Shares are delivered, except as described in the Plan. However, to the extent you hold RSUs on the record date any cash dividend is declared on Shares, you will receive a dividend equivalent right ("DER"). A DER is a right to an amount, per RSU held, equal to the amount of the cash dividend declared and paid in respect of one Share. DERs will be credited in the form of additional RSUs, with the number of RSUs based on the Fair Market Value of a Share as of the date the dividend is paid (rounded down to the nearest whole Share). DERs will be subject to the same vesting and other conditions as the RSUs to which they relate. If and to the extent that the underlying RSUs are forfeited, all related DERs shall also be forfeited. DERs will be paid at the same time the underlying RSUs are settled.

**No Right to Continued Employment**

Neither the grant of this Award, nor any other action taken hereunder shall be construed as giving you the right to be retained in the employ or service of the Company or any of its Subsidiaries (for the vesting period or any other period of time) nor interfere in any way with the Company's right to terminate your employment.

**Applicable Law and Arbitration**

This Agreement will be subject to and interpreted in accordance with the laws of the State of Delaware, without reference to the principles of conflicts of laws, and applicable Federal or other securities laws. Any dispute, controversy or claim arising out of or relating to the Plan or this Agreement that cannot be resolved by you on the one hand and the Company on the other, shall be submitted to arbitration in accordance with the terms of the Plan.

The Company may, in its sole discretion, decide to deliver any documents related to this Award or other Awards granted to you under the Plan by electronic means. By signing the Cover Sheet, you consent to receive all documents related to this Award or other Awards granted to you under the Plan by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

The terms and conditions of this Agreement and the RSUs may be amended by the Committee or the Board as permitted by the Plan.

**The Plan and Other Agreements**

The text of the Plan and any amendments thereto are incorporated in this Agreement by reference. This Agreement, the Cover Sheet and the Plan constitute the entire understanding between you and the Company regarding the RSUs. Any prior agreements, commitments or negotiations concerning the RSUs are superseded. In the event there is any express conflict between this Agreement and the terms of the Plan, the terms of the Plan shall govern.

***By signing the Cover Sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan and evidence your acceptance of the powers of the Committee of the Board of Directors of the Company that administers the Plan.***

**HOSTESS BRANDS, INC.**  
**RESTRICTED STOCK AWARD AGREEMENT**  
**Cover Sheet**

Hostess Brands, Inc., a company incorporated under the laws of the State of Delaware ("Company"), hereby grants an award of restricted stock ("Restricted Shares") to the individual named below. The terms and conditions of the Restricted Shares are set forth in this cover sheet ("Cover Sheet"), in the attached Restricted Stock Award Agreement (the "Agreement") and in the Hostess Brands, Inc. 2016 Equity Incentive Plan (the "Plan"). All capitalized terms used but not defined in this Cover Sheet and the Agreement will have the meanings ascribed to such terms in the Plan.

**Granted to:**

**Date of Grant:**

**Number of  
Restricted Shares:**

**Issuance of  
Shares:** Upon issuance, the Restricted Shares will not be vested, and until vesting occurs, the Restricted Shares shall be subject to forfeiture and restrictions on transfer as set forth in the Agreement.

**Vesting  
Schedule:**

By signing this Cover Sheet, you agree to all of the terms and conditions described in this Cover Sheet, in the Agreement and in the Plan. If you do not sign and return this Cover Sheet within 60 days of the Date of Grant, the Company will have the right to rescind this award.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

HOSTESS BRANDS, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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**HOSTESS BRANDS, INC.  
RESTRICTED STOCK AWARD AGREEMENT**

**Right to Shares**

The Restricted Shares are subject to the vesting conditions described below. Upon vesting, all restrictions on the Restricted Shares shall lapse.

**Vesting**

The Restricted Shares issued to you will vest in accordance with the schedule set forth in the Cover Sheet.

Should your employment with the Company and its Subsidiaries terminate for any reason except in connection with a Change of Control as described below, prior to a vesting date, you shall forfeit all rights to any Restricted Shares which have not vested as of such vesting date. Such Restricted Shares shall be returned to the Company automatically and for no consideration.

**Change of Control**

Notwithstanding the foregoing:

(A) if there occurs a Change of Control, and this Award does not continue or is not assumed by an acquiror on a substantially equivalent basis, then any Restricted Shares that have not yet vested shall vest immediately prior to the Change of Control, and all applicable restrictions shall lapse; and

(B) if there occurs a Change of Control, and this Award continues or is assumed by an acquiror on a substantially equivalent basis, and your employment is terminated by the Company or an acquiror without Cause or otherwise under circumstances entitling you to severance under the Company's or acquiror's severance plan within 12 months following the Change of Control, then any Restricted Shares at the time of such termination shall become fully vested and all restrictions shall lapse.

Should your employment with the Company and its Subsidiaries terminate for any reason except in connection with a Change of Control as described above, prior to a vesting date, you shall forfeit all rights to any Restricted Shares which have not vested as of such vesting date. Such Restricted Shares shall be returned to the Company automatically and for no consideration.

**Termination**

**Termination for Cause; Recoupment**

If your employment is terminated for Cause or if you breach any restrictive covenant agreement between you and the Company or its Subsidiaries, you shall forfeit all rights to any Restricted Shares which have not vested as of such termination date. Such Restricted Shares shall be returned to the Company automatically and for no consideration.

If at any time within one year after the date on which any Restricted Shares become vested, (a) your employment is terminated for Cause or (b) the Committee determines in its reasonable discretion that after termination of your employment for any reason, you engaged in conduct that violated any continuing obligation or duty in respect of the Company or any Subsidiary (including any breach of any restrictive covenant agreement between you and the Company), then, subject to applicable law, upon notice from the Company, you shall repay to the Company any cash or Shares you received pursuant to this Award, or if you disposed of any such Shares, the Fair Market Value of such Shares as of the date of disposition.

Nothing in this Agreement shall limit the Company's right of recoupment pursuant to Section 13 of the Plan, including recoupment of payments pursuant to the Company's compensation recovery, "clawback" or similar policy, as may be in effect from time to time.

**Taxes**

You are solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of the Restricted Shares. At the time of taxation, the Company shall have the right to deduct from other compensation, or to withhold Shares (by transferring Shares back to the Company) in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Restricted Shares. If Shares are withheld, the value of the Shares withheld may not exceed the minimum applicable tax withholding amount (except as otherwise determined by the Committee in its sole discretion). By accepting this Award, you expressly consent to the withholding of Shares or other amounts payable to you.

**Restrictions on Resale**

By signing this Agreement, you agree not to sell any Shares issued hereunder at a time when applicable laws, regulations or Company policies prohibit a sale.

In addition, until the Restricted Shares have vested pursuant to the schedule set forth in the Cover Sheet, they may not be sold, transferred, assigned, pledged, margined, or otherwise encumbered or disposed of (except for transfers and forfeitures to the Company).

The Company's obligation to issue Shares under this Award shall be subject to applicable laws, rules and regulations and also to such approvals by governmental agencies as may be deemed appropriate to comply with relevant securities laws and regulations.

Any Shares issued hereunder, and any cash proceeds realized from the sale of such Shares will be subject to all share retention, trading, and other policies that may be implemented by the Committee or the Board from time to time.

You shall deliver to the Chief Legal Officer of the Company, at the time of execution of this Agreement and/or at such other time or times as the Chief Legal Officer may request, one or more executed stock powers (including the stock power attached hereto as Exhibit A), authorizing the transfer of the Restricted Shares to the Company upon forfeiture or in connection with the payment of applicable withholding taxes, and you shall take such other steps or perform such other actions as may be requested by the Chief Legal Officer to effect the transfer of such Restricted Shares.

**Transfer of Restricted Shares**

Prior to the applicable vesting date, you cannot transfer, assign, encumber, or pledge the Restricted Shares. For instance, you may not use the Restricted Shares as security for a loan. If you attempt to transfer or assign the Restricted Shares, your award will immediately become invalid.

Regardless of any marital property settlement agreement, the Company or a securities broker, as applicable, is not obligated to recognize your former spouse's interest in your right to Restricted Shares in any way.

**Stockholder Rights; Dividend Equivalent Rights**

You shall have the rights as a stockholder in respect of the Restricted Shares, subject to the restrictions set forth in this Agreement (including, without limitation, transfer restrictions and forfeiture during the vesting period); provided that, you shall not have any rights to dividends on the Restricted Shares until the date on which the Restricted Shares vest. Such dividends shall be deemed reinvested in additional Restricted Shares, with the number of additional Restricted Shares based on the Fair Market Value of a Share as of the date the dividend is paid (rounded down to the nearest whole Share) and will be subject to the same vesting and other conditions as the Restricted Shares to which they relate. If and to the extent that the underlying Restricted Shares are forfeited, all related dividends shall also be forfeited. Restricted Shares in respect of dividends will be vest at the same time the underlying Restricted Shares vest.

**No Right to Continued Employment**

Neither the grant of this Award, nor any other action taken hereunder shall be construed as giving you the right to be retained in the employ or service of the Company or any of its Subsidiaries (for the vesting period or any other period of time) nor interfere in any way with the Company's right to terminate your employment.

**Applicable Law and Arbitration**

This Agreement will be subject to and interpreted in accordance with the laws of the State of Delaware, without reference to the principles of conflicts of laws, and applicable Federal or other securities laws. Any dispute, controversy or claim arising out of or relating to the Plan or this Agreement that cannot be resolved by you on the one hand and the Company on the other, shall be submitted to arbitration in accordance with the terms of the Plan.

**Delivery of Documents**

The Company may, in its sole discretion, decide to deliver any documents related to this Award or other Awards granted to you under the Plan by electronic means. By signing the Cover Sheet, you consent to receive all documents related to this Award or other Awards granted to your under the Plan by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

**Amendment**

The terms and conditions of this Agreement and the Restricted Shares may be amended by the Committee or the Board as permitted by the Plan.

**The Plan and Other Agreements**

The text of the Plan and any amendments thereto are incorporated in this Agreement by reference. This Agreement, the Cover Sheet and the Plan constitute the entire understanding between you and the Company regarding the Restricted Shares. Any prior agreements, commitments or negotiations concerning the Restricted Shares are superseded. In the event there is any express conflict between this Agreement and the terms of the Plan, the terms of the Plan shall govern.

*By signing the Cover Sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan and evidence your acceptance of the powers of the Committee of the Board of Directors of the Company that administers the Plan.*

STOCK POWER

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto Hostess Brands, Inc. (the "Company"), \_\_\_\_\_ shares of common stock, \$0.0001 par value per share, of the Company, registered in the name of the undersigned on the books and records of the Company, and does hereby irrevocably constitute and appoint \_\_\_\_\_, attorney to transfer the said stock on the books of the Company with full power of substitution in the premises.

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Signed

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Date

**HOSTESS BRANDS, INC.  
PERFORMANCE SHARE UNIT AWARD AGREEMENT**

**Cover Sheet**

Hostess Brands, Inc., a company incorporated under the laws of the State of Delaware ("Company"), hereby grants an award of performance share units ("PSUs") to the individual named below. The terms and conditions of the PSUs are set forth in this cover sheet ("Cover Sheet"), in the attached Performance Share Award Agreement (the "Agreement") and in the Hostess Brands, Inc. 2016 Equity Incentive Plan (the "Plan"). All capitalized terms used but not defined in this Cover Sheet and the Agreement will have the meanings ascribed to such terms in the Plan.

**Granted to:**

**Date of Grant:**

**Performance Period:**

**Performance Metric:**

**Performance Goals:**

**Number of PSUs:**

**Vesting Date:**

By signing this Cover Sheet, you agree to all of the terms and conditions described in this Cover Sheet, in the Agreement and in the Plan.

If you do not sign and return this Cover Sheet within 60 days of the Date of Grant, the Company will have the right to rescind this Award.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**HOSTESS BRANDS, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**HOSTESS BRANDS, INC.  
PERFORMANCE SHARE AWARD AGREEMENT**

**Right to Shares**

The award of PSUs represents your right to receive, and the Company's obligation to issue, one share of Common Stock (a "Share") for each PSU that is or becomes a Banked PSU (as described below) on the Vesting Date. Such issuance will occur as soon as practicable following the date the Committee certifies the extent to which Performance Goals have been satisfied as of the Vesting Date, based on the Company's audited financial statements, but no later than 70 days following the Vesting Date. Notwithstanding the foregoing, the Company will not permit the issuance of Shares at a time when such issuance would violate any law, rule, regulation or Company policy, as determined by the Company.

**Banked PSUs**

In order to vest and actually be issued Shares in respect of PSUs, PSUs must first become "Banked PSUs". The number of PSUs, if any, that become Banked PSUs will be determined as of the end of each Annual Performance Period, based on the extent to which the Performance Goal, as set forth in the Cover Sheet, has been achieved for such year, as certified by the Committee. If Threshold Performance has not been achieved for such Annual Performance Period, then no PSUs will become Banked PSUs for such Annual Performance Period. If Threshold Performance has been achieved for such Annual Performance Period, then the Threshold Number of PSUs for such Annual Performance Period, as set forth on the Cover Sheet, will become Banked PSUs for such Annual Performance Period. If Target Performance has been achieved for such Annual Performance Period, then the Target Number of PSUs for such Annual Performance Period, as set forth on the Cover Sheet, will become Banked PSUs for such Annual Performance Period. If Maximum Performance (or greater) has been achieved for such Annual Performance Period, then the Maximum Number of PSUs for such Annual Performance Period, as set forth on the Cover Sheet, will become Banked PSUs for such Annual Performance Period. If for any Annual Performance Period, actual performance falls between Threshold Performance and Target Performance, or between Target Performance and Maximum Performance, the number of PSUs that become Banked PSUs will be determined by linear interpolation.

Notwithstanding the foregoing, if Target Performance (or better than Target Performance) is achieved for all three Annual Performance Periods, then as of the last day of the last Annual Performance Period, an additional amount of PSUs will become Banked PSUs (the "Additional PSUs"). Such additional amount will be equal to 25% of the sum of the Target Number of PSUs for all three Annual Performance Periods.

**Performance Metric**

As set forth in the Cover Sheet, the Performance Metric shall be , as defined and further described in Exhibit A of this Agreement.

**Vesting; Forfeiture**

On the Vesting Date, your right to issuance of the Shares underlying any PSUs that are Banked PSUs as of such Vesting Date shall become vested and nonforfeitable. Should your employment with the Company and its Subsidiaries terminate for any reason prior to the Vesting Date, all PSUs, including any Banked PSUs, will be forfeited and you will have no right to the issuance of any Shares hereunder; provided that if such termination is other than (i) by you voluntarily (except where such voluntary termination entitles you to severance under the Company's severance plan), or (ii) by the Company for Cause, the date of such termination will be treated as if it were the Vesting Date, and you will be entitled to issuance of Shares underlying any PSUs that are then Banked PSUs, but your rights in respect of any additional PSUs will be forfeited.

**Termination for Cause;  
Recoupment**

If your employment is terminated for Cause or if you breach any restrictive covenant agreement between you and the Company or its Subsidiaries, the PSUs, whether or not vested (including any Banked PSUs), will immediately terminate.

If at any time within one year after the date on which you receive payment in respect of the PSUs (whether in the form of cash, or Shares), (a) your employment is terminated for Cause or (b) the Committee determines in its reasonable discretion that after termination of your employment for any reason, you engaged in conduct that violated any continuing obligation or duty in respect of the Company or any Subsidiary (including any breach of any restrictive covenant agreement between you and the Company), then, subject to applicable law, upon notice from the Company, you shall repay to the Company any cash or Shares you received pursuant to the PSUs, or if you disposed of any such Shares, the Fair Market Value of such Shares as of the date of disposition.

Nothing in this Agreement shall limit the Company's right of recoupment pursuant to Section 13 of the Plan, including recoupment of payments pursuant to the Company's compensation recovery, "clawback" or similar policy, as may be in effect from time to time.

**Change of Control**

Notwithstanding the foregoing:

(A) if there occurs a Change of Control prior to the Vesting Date, and this Award does not continue or is not assumed by an acquiror, then the date of such Change of Control will be treated as if it were the Vesting Date, and you will be entitled to issuance of Shares underlying any PSUs that are then Banked PSUs, plus a number of shares underlying any PSUs that would become Banked Shares determined as if the Annual Performance Period ended on the date of the Change of Control, and the Performance Goals and Number of PSUs as set forth in the Cover Sheet were each prorated to reflect the shortened Annual Performance Period (and for the avoidance of doubt, no Additional PSUs will become Banked PSUs); and

(B) if there occurs a Change of Control, and this Award continues or is assumed by an acquiror, and your employment is terminated by the Company or an acquiror without Cause or otherwise under circumstances entitling you to severance under the Company's or acquiror's severance plan within 12 months following the Change of Control, then in addition to any PSUs that are then Banked PSUs, in respect of any uncompleted Annual Performance Period, a number of PSUs shall become Banked PSUs as of the date of such termination as if Target Performance were achieved for each such uncompleted Annual Performance Period (and for the avoidance of doubt, no Additional PSUs will become Banked PSUs).

For purposes of the foregoing, this Award shall not be treated as continued or assumed unless it is continued or assumed on a substantially equivalent basis, including, without limitation, continuation or assumption of the Performance Metric and Performance Goals.

**Taxes**

You are solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of the PSUs. At the time of taxation, the Company shall have the right to deduct from other compensation, or to withhold Shares in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the PSUs. If Shares are withheld, the value of the Shares withheld may not exceed the minimum applicable tax withholding amount (except as otherwise determined by the Committee in its sole discretion). By accepting this Award, you expressly consent to the withholding of Shares or other amounts payable to you.

**Restrictions on Resale/ Company Policies**

By signing this Agreement, you agree not to sell any Shares received hereunder at a time when applicable laws, regulations or Company policies prohibit a sale. Any Shares issued hereunder, and any cash proceeds realized from the sale of such Shares will be subject to all share retention, trading, and other policies that may be implemented by the Committee or the Board from time to time.

**Transfer of right to receive PSUs**

You cannot transfer or assign your PSUs. For instance, you may not sell your right to PSUs or use such right as security for a loan. If you attempt to do any of these things, your Award will immediately become invalid.

Regardless of any marital property settlement agreement, the Company or a securities broker, as applicable, is not obligated to recognize your former spouse's interest in your right to PSUs in any way.

**Stockholder Rights**

You, or your estate or heirs, have no rights as a stockholder of the Company in respect of PSUs, unless and until the underlying Shares are issued. No adjustments are made for dividends or other rights if the applicable record date occurs before Shares are issued, except as described in the Plan. However, to the extent you hold PSUs on the record date any cash dividend is declared on Shares, you will receive a dividend equivalent right ("DER"). A DER is a right to an amount, per PSU held, equal to the amount of the cash dividend declared and paid in respect of one Share. DERs will be credited in the form of additional PSUs, with the number of PSUs based on the Fair Market Value of a Share as of the date the dividend is paid (rounded down to the nearest whole Share). DERs will be subject to the same vesting and other conditions as the PSUs. If and to the extent that the underlying PSUs are forfeited, all related DERs shall also be forfeited. DERs will be paid at the same time the underlying PSUs are settled if and to the extent that the underlying PSUs vest and become payable.

**No Right to Continued Employment**

Neither the grant of this Award, nor any other action taken hereunder shall be construed as giving you the right to be retained in the employ or service of the Company or any of its Subsidiaries (for the vesting period or any other period of time) nor interfere in any way with the Company's right to terminate your employment.

**Applicable Law and Arbitration**

This Agreement will be subject to and interpreted in accordance with the laws of the State of Delaware, without reference to the principles of conflicts of laws, and applicable Federal or other securities laws. Any dispute, controversy or claim arising out of or relating to the Plan or this Agreement that cannot be resolved by you on the one hand and the Company on the other, shall be submitted to arbitration in accordance with the terms of the Plan.

**Delivery of Documents**

The Company may, in its sole discretion, decide to deliver any documents related to this Award or other Awards granted to you under the Plan by electronic means. By signing the Cover Sheet, you consent to receive all documents related to this Award or other Awards granted to your under the Plan by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

**Amendment**

The terms and conditions of this Agreement and the PSUs may be amended by the Committee or the Board as permitted by the Plan.

**The Plan and Other Agreements**

The text of the Plan and any amendments thereto are incorporated in this Agreement by reference.

This Agreement, the Cover Sheet and the Plan constitute the entire understanding between you and the Company regarding the PSUs. Any prior agreements, commitments or negotiations concerning the PSUs are superseded. In the event there is any express conflict between this Agreement and the terms of the Plan, the terms of the Plan shall govern.

***By signing the Cover Sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan and evidence your acceptance of the powers of the Committee of the Board of Directors of the Company that administers the Plan.***

**HOSTESS BRANDS, INC.  
PERFORMANCE SHARE UNIT AWARD AGREEMENT**

**Exhibit A**

**HOSTESS BRANDS, INC.  
2016 EQUITY INCENTIVE PLAN**

**NONQUALIFIED STOCK OPTION AGREEMENT**

**Cover Sheet**

Hostess Brands, Inc. (the "Company"), a company organized under the laws of the State of Delaware, hereby grants a Nonqualified Stock Option (the "Option") to acquire shares of Common Stock (the "Shares") to the individual named below. The terms and conditions of the Option are set forth in this cover sheet (the "Cover Sheet"), in the attached Stock Option Agreement (the "Agreement") and in the Hostess Brands, Inc. 2016 Equity Incentive Plan (the "Plan"). All capitalized terms used but not defined in this Cover Sheet and the attached Stock Option Agreement will have the meanings ascribed to such terms in the Plan.

**Granted to:**

**Date of Grant:**

**Shares subject to the Option:**

**Exercise Price per Share:**

**Expiration Date:**

**Vesting Commencement Date:**

**Vesting Schedule:**

By signing this Cover Sheet, you agree to all of the terms and conditions described in this Cover Sheet, in the Agreement and in the Plan.

If you do not sign and return this Cover Sheet within 60 days of the Date of Grant, the Company will have the right to rescind this Award.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**HOSTESS BRANDS, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**HOSTESS BRANDS, INC.  
NONQUALIFIED STOCK OPTION AGREEMENT**

**Nonqualified Stock Option**

This Option is not intended to be an Incentive Stock Option under section 422 of the Internal Revenue Code and will be interpreted accordingly.

**Vesting**

Your right to exercise this Option vests at the times and in the manner as shown on the Cover Sheet.

Except in connection with a Change of Control, as described below, this Option will cease vesting as of the date your employment with the Company and its Subsidiaries has terminated for any reason.

**Termination**

Should your employment with the Company and its Subsidiaries terminate for any reason except in connection with a Change of Control as described below, the portion of this Option that is not then vested will immediately terminate, and, except as provided below, the portion that is then vested will terminate at the close of business at the Company's registered office on the 90th day after your termination date. Your Option will expire in any event at the close of business at the Company's registered office on the Expiration Date set forth on the Cover Sheet.

**Death or Disability**

If your employment terminates because of your death or Disability, your right to exercise the vested portion of this Option will expire at the close of business at the Company's registered office on the date that is one year following your death or Disability (or on the Expiration Date set forth on the Cover Sheet, if earlier).

**Termination for Cause;  
Recoupment**

If your employment is terminated for Cause or if you breach any restrictive covenant agreement between you and the Company or its Subsidiaries, the Option, whether or not vested, will immediately terminate.

In addition, if at any time within one year after the date on which you exercise the Option or otherwise receive payment in respect of the Option, (a) your employment is terminated for Cause or (b) the Committee determines in its reasonable discretion that after termination of your employment for any reason, you engaged in conduct that violated any continuing obligation or duty in respect of the Company or any Subsidiary (including any breach of any restrictive covenant agreement between you and the Company), then, subject to applicable law, upon notice from the Company, you shall repay to the Company any cash or Shares you received in respect of the Option (less the exercise price paid by you), or if you disposed of any such Shares, the Fair Market Value of such Shares as of the date of disposition (less the exercise price paid by you).

Nothing in this Agreement shall limit the Company's right of recoupment pursuant to Section 13 of the Plan, including recoupment of payments pursuant to the Company's compensation recovery, "clawback" or similar policy, as may be in effect from time to time.

**Change of Control**

Notwithstanding the foregoing, in the event of a Change of Control, the Committee may take such actions with respect to the Option as it deems appropriate pursuant to the Plan. If the Option continues in effect after a Change of Control and the Participant's employment is terminated by the Company and its Subsidiaries without Cause or otherwise under circumstances entitling you to severance under the Company's or acquiror's severance plan, upon or within 12 months following the Change of Control, any unvested portion of the Option shall become fully vested upon such termination of employment.

**Restrictions on Exercise**

The Company will not permit you to exercise this Option if the issuance of Shares at that time would violate any law, rule, regulation or Company policy, as determined by the Company.

**Notice of Exercise**

When you wish to exercise this Option, you must complete and execute such documents, if any, and complete such processes, that the Company or a securities broker approved by the Company may require to accomplish the Option exercise ("Notice of Exercise").

Upon exercise of the Option (or portion thereof), the Option (or portion thereof) will terminate and cease to be outstanding.

If someone else wants to exercise the Option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

**Form of Payment**

When you submit your Notice of Exercise, you must include payment of the exercise price for the Shares you are purchasing, along with applicable withholding taxes. Payment may be made in one (or a combination) of the following forms:

- Your personal check, a cashier's check or a money order.
- If permitted by the Company, irrevocable directions to a securities broker approved by the Company to sell your Shares subject to the Option and to deliver all or a portion of the sale proceeds to the Company in payment of the exercise price and applicable withholding taxes. (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given by signing forms, if any, provided by the Company or the securities broker.
- Any other method permitted by the Company at the time of exercise.

**Taxes**

When you exercise any portion of the Option, the Company will withhold taxes as required by applicable law, and your ability to exercise any portion of the Option is conditional upon your making arrangements satisfactory to the Company.

You are solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the Option. At the time of taxation, the Company shall have the right to deduct from other compensation, or to withhold Shares in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the exercise of the Option. If Shares are withheld, the value of the Shares withheld may not exceed the minimum applicable tax withholding amount (except as otherwise determined by the Committee in its sole discretion). By accepting this Award, you expressly consent to the withholding of Shares or other amounts payable to you.

**Restrictions on Resale/Company Policies**

By signing this Agreement, you agree not to sell any Shares received upon exercise of the Option at a time when applicable laws, regulations or Company policies prohibit a sale. The Option, any Shares issued pursuant to the Option, and any cash proceeds realized from the sale of such Shares will be subject to all share retention, trading, and other policies that may be implemented by the Committee or the Board from time to time.

**Transfer of Option**

Prior to your death, only you may exercise this Option. You cannot transfer or assign this Option. For instance, you may not sell this Option or use it as security for a loan. If you attempt to do any of these things, this Option will immediately become invalid.

In the event of your death, the Option may be exercised by your designated beneficiary, if any, or your executors, personal representatives or distributees determined in accordance with your will or the laws of descent and distribution.

Regardless of any marital property settlement agreement, the Company or a securities broker, as applicable, is not obligated to honor a Notice of Exercise from your former spouse, nor is the Company or the securities broker obligated to recognize your former spouse's interest in your Option in any other way.

**Stockholder Rights**

You, or your estate or heirs, have no rights as a stockholder of the Company with respect to the Shares subject to the Option until a proper Notice of Exercise has been submitted, and the exercise price and withholding taxes have been tendered and the Shares have been delivered to you. Upon the delivery of shares of Common Stock upon exercise, you will have all the rights of a shareholder with respect to such shares of Common Stock, including the right to vote such shares of Common Stock and to receive all dividends and other distributions paid with respect to them.

**No Right to Continued Employment**

Neither the grant of the Option, nor any other action taken hereunder shall be construed as giving you the right to be retained in the employ or service of the Company or any of its Subsidiaries (for the vesting period or any other period of time) nor interfere in any way with the Company's right to terminate your employment.

**Applicable Law and Arbitration**

This Agreement will be subject to and interpreted in accordance with the laws of the State of Delaware, without reference to the principles of conflicts of laws, and applicable Federal or other securities laws. Any dispute, controversy or claim arising out of or relating to the Plan or this Agreement that cannot be resolved by you on the one hand and the Company on the other, shall be submitted to arbitration in accordance with the terms of the Plan.

**Delivery of Documents**

The Company may, in its sole discretion, decide to deliver any documents related to the Option or other Awards granted to you under the Plan by electronic means. By signing the Cover Sheet, you consent to receive all documents related to the Option or other Awards granted to you under the Plan by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

**Amendment**

The terms and conditions of this Agreement and the Option may be amended by the Committee or the Board as permitted by the Plan.

**The Plan and Other Agreements**

The text of the Plan and any amendments thereto are incorporated in this Agreement by reference.

This Agreement, the Cover Sheet and the Plan constitute the entire understanding between you and the Company regarding this Option. Any prior agreements, commitments or negotiations concerning this Option are superseded. In the event there is any express conflict between this Agreement and the terms of the Plan, the terms of the Plan shall govern.

***By signing the Cover Sheet of this Agreement, you agree to all of the terms and conditions described in the Cover Sheet, above and in the Plan and evidence your acceptance of the powers of the Committee of the Board of Directors of the Company that administers the Plan.***

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, William D. Toler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hostess Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2017

/s/ William D. Toler

*President and Chief Executive Officer  
(Principal Executive Officer)*

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Thomas A. Peterson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hostess Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2017

/s/ Thomas A. Peterson

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*Executive Vice President, Chief Financial Officer  
(Principal Financial and Accounting Officer)*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Hostess Brands, Inc., (the "Company") on Form 10-Q for the fiscal quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William D. Toler, Chief Executive Officer of the Company, certify, based on my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William D. Toler

Date: May 9, 2017

*President and Chief Executive Officer  
(Principal Executive Officer)*

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This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Hostess Brands, Inc., (the "Company") on Form 10-Q for the fiscal quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas A. Peterson, Chief Financial Officer of the Company, certify, based on my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas A. Peterson

Date: May 9, 2017

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*Executive Vice President, Chief Financial Officer  
(Principal Financial and Accounting Officer)*

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.