
**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 June 30, 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 Regulation 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.:

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 - 99,992,183 shares at August 4, 2017

Shares of Class B common stock outstanding - 30,398,777 shares at August 4, 2017

HOSTESS BRANDS, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2017

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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.

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

ASSETS	June 30, 2017 (Successor)	December 31, 2016 (Successor)
Current assets:		
Cash and cash equivalents	\$ 66,224	\$ 26,855
Accounts receivable, net	100,120	89,237
Inventories	33,797	30,444
Prepays and other current assets	6,035	4,827
Total current assets	206,176	151,363
Property and equipment, net	162,586	153,224
Intangible assets, net	1,935,076	1,946,943
Goodwill	580,349	588,460
Other assets, net	7,580	7,902
Total assets	\$ 2,891,767	\$ 2,847,892
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Long-term debt and capital lease obligation payable within one year	\$ 11,357	\$ 11,496
Accounts payable	36,316	34,083
Customer trade allowances	38,018	36,691
Accrued expenses and other current liabilities	15,206	21,656
Total current liabilities	100,897	103,926
Long-term debt and capital lease obligation	989,062	993,374
Tax receivable agreement	173,898	165,384
Deferred tax liability	358,797	353,797
Total liabilities	1,622,654	1,616,481
Commitments and Contingencies (Note 14)		
Class A common stock, \$0.0001 par value, 200,000,000 shares authorized, 99,992,183 and 98,250,917 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	10	10
Class B common stock, \$0.0001 par value, 50,000,000 shares authorized, 30,398,777 and 31,704,988 issued and outstanding at June 30, 2017 and December 31, 2016, respectively	3	3
Additional paid in capital	920,109	912,824
Accumulated other comprehensive loss	(304)	—
Retained earnings (accumulated deficit)	19,044	(15,618)
Stockholders' equity	938,862	897,219
Non-controlling interest	330,251	334,192
Total liabilities and stockholders' equity	\$ 2,891,767	\$ 2,847,892

See accompanying notes to the unaudited consolidated financial statements.

HOSTESS BRANDS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, amounts in thousands, except shares and per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2017 (Successor)	June 30, 2016 (Predecessor)	June 30, 2017 (Successor)	June 30, 2016 (Predecessor)
Net revenue	\$ 203,178	\$ 192,343	\$ 387,716	\$ 352,560
Cost of goods sold	114,734	105,917	219,976	195,809
Gross profit	88,444	86,426	167,740	156,751
Operating costs and expenses:				
Advertising and marketing	8,111	9,949	15,433	17,148
Selling expense	8,700	8,109	16,812	14,904
General and administrative	15,739	11,593	28,921	21,231
Amortization of customer relationships	5,994	156	11,867	312
Business combination transaction costs	—	2,801	—	3,016
Impairment of property and equipment	—	—	—	7,267
Related party expenses	108	1,138	192	2,373
Recall and other costs	—	4,080	—	4,260
Total operating costs and expenses	38,652	37,826	73,225	70,511
Operating income	49,792	48,600	94,515	86,240
Other expense:				
Interest expense, net	10,035	17,893	19,865	35,742
Gain on debt modification	(174)	—	(174)	—
Other expense	413	918	1,127	2,172
Total other expense	10,274	18,811	20,818	37,914
Income before income taxes	39,518	29,789	73,697	48,326
Income tax expense	11,311	317	21,291	317
Net income	28,207	29,472	52,406	48,009
Less: Net income attributable to the non-controlling interest	9,377	852	17,744	1,780
Net income attributable to Class A shareholders/partners	\$ 18,830	\$ 28,620	\$ 34,662	\$ 46,229
Earnings per Class A share:				
Basic	\$ 0.19		\$ 0.35	
Diluted	\$ 0.18		\$ 0.33	
Weighted-average shares outstanding:				
Basic	98,943,690		98,600,075	
Diluted	107,184,341		106,004,898	

See accompanying notes to the unaudited consolidated financial statements.

HOSTESS BRANDS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, amounts in thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2017 (Successor)	June 30, 2016 (Predecessor)	June 30, 2017 (Successor)	June 30, 2016 (Predecessor)
Net income including non-controlling interests	\$ 28,207	\$ 29,472	\$ 52,406	\$ 48,009
Other comprehensive loss:				
Unrealized losses on interest rate swap contract designated as a cash flow hedge	(665)	—	(665)	—
Tax benefit	203	—	203	—
Comprehensive income including non-controlling interest	27,745	29,472	51,944	48,009
Less: Other comprehensive loss attributed to non-controlling interest	(158)	—	(158)	—
Less: Net income attributed to non-controlling interest	9,377	852	17,744	1,780
Comprehensive income attributed to class A shareholders/partners	<u>\$ 18,526</u>	<u>\$ 28,620</u>	<u>\$ 34,358</u>	<u>\$ 46,229</u>

See accompanying notes to the unaudited consolidated financial statements.

HOSTESS BRANDS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(Unaudited, amounts in thousands, except shares data)

Partners' Equity (Deficit) Hostess Holdings, LP (Predecessor)						
	Class A		Class C		Total Partners' Equity (Deficit)	Non-controlling Interest
Balance – December 31, 2015	\$	(276,084)	\$	(346,046)	\$ (622,130)	\$ (37,991)
Distributions to partners		(1,647)		(3,339)	(4,986)	(240)
Unit based compensation		207		206	413	—
Net income		23,115		23,114	46,229	1,780
Balance – June 30, 2016	\$	(254,409)	\$	(326,065)	\$ (580,474)	\$ (36,451)

Stockholders' Equity Hostess Brands, Inc. (Successor)									
	Class A Voting Common Stock		Class B Voting Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Losses / Retained Earnings	Total Stockholders' Equity	Non-controlling Interest
	Shares	Amount	Shares	Amount					
Balance–December 31, 2016	98,250,917	\$ 10	31,704,988	\$ 3	\$ 912,824	\$ —	\$ (15,618)	\$ 897,219	\$ 334,192
Comprehensive income	—	—	—	—	—	(304)	34,662	34,358	17,586
Share-based compensation	435,000	—	—	—	4,360	—	—	4,360	—
Exchanges	1,306,211	—	(1,306,211)	—	12,609	—	—	12,609	(12,609)
Distributions	—	—	—	—	—	—	—	—	(8,918)
Exercise of public warrants	55	—	—	—	1	—	—	1	—
Tax receivable agreement arising from exchanges, net of income taxes of \$1,845	—	—	—	—	(9,685)	—	—	(9,685)	—
Balance–June 30, 2017	99,992,183	\$ 10	30,398,777	\$ 3	\$ 920,109	\$ (304)	\$ 19,044	\$ 938,862	\$ 330,251

See accompanying notes to the unaudited consolidated financial statements.

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

	Six Months Ended	
	June 30, 2017	June 30, 2016
	(Successor)	(Predecessor)
Operating activities		
Net income	\$ 52,406	\$ 48,009
Depreciation and amortization	18,854	5,628
Impairment of property and equipment	—	7,267
Debt discount (premium) amortization	(470)	1,659
Non-cash gain on debt modification	(394)	—
Gain on sale of property and equipment	(15)	(341)
Share-based compensation	4,360	413
Deferred taxes	12,505	—
Change in operating assets and liabilities		
Accounts receivable	(10,883)	(14,747)
Inventories	(3,353)	(2,784)
Prepays and other current assets	(140)	(2,315)
Accounts payable and accrued expenses	(6,418)	16,112
Customer trade allowances	1,327	(5,089)
Other	—	381
Net cash provided by operating activities	<u>67,779</u>	<u>54,193</u>
Investing activities		
Purchases of property and equipment	(15,101)	(15,664)
Acquisition of Superior	—	(49,941)
Proceeds from sale of assets	54	4,350
Acquisition and development of software assets	(859)	(775)
Net cash used in investing activities	<u>(15,906)</u>	<u>(62,030)</u>
Financing activities		
Repayments of long-term debt and capital lease obligation	(2,570)	(4,636)
Debt fees	(1,017)	—
Distributions to partners	—	(4,986)
Distributions to non-controlling interest	(8,918)	(240)
Proceeds from the exercise of warrants	1	—
Net cash used in financing activities	<u>(12,504)</u>	<u>(9,862)</u>
Net increase in cash and cash equivalents	<u>39,369</u>	<u>(17,699)</u>
Cash and cash equivalents at beginning of period	26,855	64,473
Cash and cash equivalents at end of period	<u>\$ 66,224</u>	<u>\$ 46,774</u>

Supplemental Disclosures of Cash Flow Information:

Cash paid during the period for:

Interest	\$ 24,958	\$ 33,892
Taxes paid	\$ 9,930	\$ —
Supplemental disclosure of non-cash investing:		
Purchases of property and equipment funded by accounts payable	\$ 123	\$ 695

See accompanying notes to the unaudited consolidated financial statements.

HOSTESS BRANDS, INC.
NOTES TO UNAUDITED 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 primarily 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,” the Company, then known as 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”). Unless the context requires otherwise, the “Company” refers to the Predecessor for periods prior to the Business Combination or to the Successor for periods after the Business Combination.

On May 10, 2016, the Company purchased the stock of Superior Cake Products, Inc. (“Superior”) located in Southbridge, Massachusetts. Superior manufactures and distributes eclairs, 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) has been presented separately from general and administrative in the current period presentation, with conforming reclassifications made for the prior period presentation; recall costs (previously reported in the Predecessor’s unaudited quarterly financial statements as a reduction of gross margin) have been presented as recall and other expenses along with amounts previously reported as loss on sale of property and equipment and bakery shutdown costs.

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

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”). In the opinion of management, the unaudited consolidated financial statements include all adjustments necessary for the fair presentation of the Company’s financial position and of the results of operations and cash flows for the periods presented, all such adjustments were of a normal and recurring nature. 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 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 and 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 June 30, 2017 and December 31, 2016, the Company’s accounts receivable were \$100.1 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 \$2.5 million and \$1.9 million, respectively. In addition, there are customer trade allowances of \$38.0 million and \$36.7 million as of June 30, 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:

<u>(In thousands)</u>	June 30, 2017	December 31, 2016
	(Successor)	(Successor)
Ingredients and packaging	\$ 14,497	\$ 12,712
Finished goods	16,080	14,229
Inventory in transit to customers	3,220	3,503
	<u>\$ 33,797</u>	<u>\$ 30,444</u>

Impairment of Property and Equipment

For the three and six months ended June 30, 2017 (Successor), the Company did not have any impairments. During the first quarter of 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 based on Level 3 inputs within the fair value measurement hierarchy.

Software Costs

Included in the caption "Other assets" in the Consolidated Balance Sheets is capitalized software in the amount of \$7.1 million and \$7.4 million at June 30, 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 \$1.2 million for the three and six months ended June 30, 2017 (Successor), respectively, compared to \$0.5 million and \$0.9 million for the three and six months ended June 30, 2016 (Predecessor), respectively.

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:

(% of Consolidated Net Revenues)	Three Months Ended		Six Months Ended	
	June 30, 2017 (Successor)	June 30, 2016 (Predecessor)	June 30, 2017 (Successor)	June 30, 2016 (Predecessor)
Sweet Baked Goods	20.1 %	21.1 %	19.5 %	21.5 %
Other	0.8 %	0.7 %	0.7 %	0.4 %
Total	20.9 %	21.8 %	20.2 %	21.9 %

Advertising Costs

Advertising costs, through both national and regional media, are expensed in the period in which the advertisements are run. These costs totaled \$0.2 million and \$0.3 million for the three and six months ended June 30, 2017 (Successor), and \$0.5 million and \$1.2 million for the three and six months ended June 30, 2016 (Predecessor), respectively. These costs are recorded within advertising and marketing expense on the consolidated statement of operations.

Derivatives

In April 2017, the Company entered into an interest rate swap contract to mitigate its exposure to changes in the variable interest rate on its long-term debt. This contract was designated as a cash flow hedge. Changes in the fair value of this instrument are recognized in accumulated other comprehensive loss in the consolidated balance sheets and reclassified into earnings in the period in which the hedged transaction affects earnings. Hedging ineffectiveness, if any, is recognized in earnings in the consolidated statements of operations. Payments made under this contract are included in the supplemental disclosure of interest in the consolidated statement of cash flows.

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, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company early adopted ASU 2017-4 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, 2018, 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, 2018. 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 2018 under the cumulative effect transition method.

The planned adoption dates for all standards not yet implemented are based on the Company’s assessment that it will lose its status as an Emerging Growth Company, as defined in the Jumpstart Our Business Startups Act (JOBS Act), as of December 31, 2017.

2. Business Combination

The purchase price for the Business Combination was allocated to the fair value of the assets acquired and liabilities assumed based on preliminary valuations performed by the Company as of the closing date. As of June 30, 2017, these valuations are still subject to adjustment. During the three and six months ended June 30, 2017 the Company revised its estimate of the future cash tax savings under the tax receivable agreement. This resulted in a \$8.1 million decrease in goodwill, a decrease to the tax receivable agreement liability of \$3.0 million, a \$5.5 million decrease to deferred tax liabilities, and an increase to accrued expenses and other liabilities of \$0.4 million.

3. 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 six months ended June 30, 2017, the following RSUs were granted under the 2016 Plan:

- 22,732 RSUs to directors of the Company. The units vest on November 4, 2017. These awards only contain service conditions.
- 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 November 4, 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.
- 18,116 RSUs to certain members of management. One-third of the units vest at each of the following dates: June 1 of each of 2018, 2019, and 2020. These awards contain no other vesting conditions.
- 372,036 RSUs to certain members of management. One-third of the units vest at each of the following dates; November 4 of each of 2017, 2018 and 2019. These awards contain no other vesting conditions.

- 715,406 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 continued service through 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, award recipients have the opportunity to receive up to 225% of the granted units.

For the three and six months ended June 30, 2017 (Successor), \$1.9 million and \$2.2 million of compensation expense related to the RSUs was recognized within general and administrative expenses on the consolidated statement of operations, respectively.

The following table summarizes the activity of the Company's unvested RSUs for the six months ended June 30, 2017:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested units as of December 31, 2016 (Successor)	—	\$ —
Total Granted	1,425,790	15.77
Forfeited	(11,623)	15.78
Vested	—	—
Unvested as of June 30, 2017 (Successor)	<u>1,414,167</u>	<u>\$ 15.77</u>

As of June 30, 2017, there was \$20.0 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 the Company's Chief Executive Officer under the 2016 Plan. One-third of the shares vest on each of the following dates: January 1, 2018 and November 4 of each of 2018 and 2019. Vesting at each date is also 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 accounting standards. 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 June 30, 2017, there was \$5.4 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 and six months ended June 30, 2017 (Successor), the Company recognized expense of \$1.3 million and \$1.5 million related to the restricted stock awards within general and administrative expenses on the consolidated statement of operations, respectively.

The following table summarizes the activity of the Company's restricted stock awards for the six months ended June 30, 2017:

	Shares of Restricted Stock	Weighted Average Grant Date Fair Value
Unvested units as of December 31, 2016 (Successor)	—	\$ —
Granted	435,000	15.78
Forfeited	—	—
Vested	—	—
Unvested as of June 30, 2017 (Successor)	<u>435,000</u>	<u>\$ 15.78</u>

Stock Options

During the six months ended June 30, 2017, the Company granted 1,155,788 stock options to certain members of management under the Plan. The weighted average grant date fair value of \$5.03 per option was estimated using the Black-Scholes option-pricing model (level 3) with the following assumptions:

	Six Months Ended June 30, 2017
Expected volatility ⁽¹⁾	27.53%
Expected dividend yield ⁽²⁾	—%
Expected option term ⁽³⁾	6.25 years
Risk-free rate ⁽⁴⁾	2.1%

- (1) The expected volatility assumption was calculated based on a peer group analysis of stock price volatility with a look back period based on the expected term and ending on the grant date.
- (2) As of June 30, 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.

The stock options vest in four equal annual installments on varying dates through June 2021. As of June 30, 2017, there was \$5.2 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. For the three and six months ended June 30, 2017 (Successor), there was \$0.6 million and \$0.7 million, respectively, 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 six months ended June 30, 2017 (Successor):

	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2016 (Successor)	—	—	\$ —	\$ —
Granted	1,155,788	6.02	15.85	5.03
Exercised	—	—	—	—
Forfeited	(4,999)	6.02	15.85	5.03
Outstanding as of June 30, 2017 (Successor)	<u>1,150,789</u>	<u>6.02</u>	<u>\$ 15.85</u>	<u>\$ 5.03</u>
Exercisable as of June 30, 2017 (Successor)	—	—	—	—

Hostess Management, LLC Equity Interest Plan (Predecessor)

The Company established a profits interest plan under the 2013 Hostess Management, LLC (“Hostess Management”) Equity Incentive Plan (“2013 Plan”) to allow members of the management team to participate in the success of the Company. The 2013 Plan consisted of an approximate 9% ownership interest in the Company’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 Company recognized unit-based compensation expense of \$0.2 million and \$0.4 million for the three and six months ended June 30, 2016 (Predecessor), within general and administrative expense on the consolidated statement of operations, respectively. 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.

Related Party Stock Awards

See note 15 for information regarding additional equity awards not issued under the 2016 or 2013 Plans.

4. Property and Equipment

Property and equipment consists of the following:

(In thousands)	June 30, 2017	December 31, 2016
	(Successor)	(Successor)
Land and buildings	\$ 30,870	\$ 30,275
Machinery and equipment	129,567	112,221
Construction in progress	9,577	12,334
	170,014	154,830
Less accumulated depreciation	(7,428)	(1,606)
	<u>\$ 162,586</u>	<u>\$ 153,224</u>

Depreciation expense was \$3.0 million and \$5.8 million for the three and six months ended June 30, 2017 (Successor), and \$2.2 million and \$4.2 million for the three and six months ended June 30, 2016 (Predecessor), respectively.

5. 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) 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:

(In thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
	(Successor)	(Predecessor)	(Successor)	(Predecessor)
Net revenue:				
Sweet Baked Goods	\$ 182,746	\$ 179,088	\$ 351,178	\$ 333,815
Other	20,432	13,255	36,538	18,745
Net revenue	<u>\$ 203,178</u>	<u>\$ 192,343</u>	<u>\$ 387,716</u>	<u>\$ 352,560</u>
Depreciation and amortization:				
Sweet Baked Goods	\$ 8,573	\$ 2,626	\$ 16,883	\$ 5,303
Other	1,015	325	1,971	325
Depreciation and amortization	<u>\$ 9,588</u>	<u>\$ 2,951</u>	<u>\$ 18,854</u>	<u>\$ 5,628</u>
Gross profit:				
Sweet Baked Goods	\$ 82,373	\$ 82,152	\$ 157,250	\$ 150,545
Other	6,071	4,274	10,490	6,206
Gross profit	<u>\$ 88,444</u>	<u>\$ 86,426</u>	<u>\$ 167,740</u>	<u>\$ 156,751</u>
Capital expenditures (1):				
Sweet Baked Goods	\$ 7,662	\$ 13,156	\$ 15,645	\$ 17,084
Other	167	50	438	50
Capital expenditures	<u>\$ 7,829</u>	<u>\$ 13,206</u>	<u>\$ 16,083</u>	<u>\$ 17,134</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 and six months ended June 30, 2017 (Successor) and 2016 (Predecessor).

Total assets by reportable segment are as follows:

(In thousands)	June 30, 2017	December 31, 2016
	(Successor)	(Successor)
Total segment assets:		
Sweet Baked Goods	\$ 2,676,876	\$ 2,633,758
Other	214,891	214,134
Total segment assets	<u>\$ 2,891,767</u>	<u>\$ 2,847,892</u>

6. Goodwill and Intangible Assets

Goodwill and intangible assets as of June 30, 2017 and December 31, 2016 were recognized as part of the 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. During the three months ended June 30, 2017, the purchase price allocation for the Business Combination was adjusted, resulting in a \$8.1 million decrease to goodwill.

Activity of goodwill is presented below by reportable segment:

(In thousands)	Sweet Baked Goods	Other	Total
Balance as of December 31, 2016 (Successor)	\$ 518,759	\$ 69,701	\$ 588,460
Measurement period adjustment of the Business Combination	(8,111)	—	(8,111)
Balance as of June 30, 2017 (Successor)	<u>\$ 510,648</u>	<u>\$ 69,701</u>	<u>\$ 580,349</u>

Intangible assets consist of the following:

(In thousands)	June 30, 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)	(15,783)	(3,916)
Intangible assets, net	<u>\$ 1,935,076</u>	<u>\$ 1,946,943</u>

Amortization expense was \$6.0 million and \$11.9 million for the three and six months ended June 30, 2017 (Successor) and \$0.2 million and \$0.3 million for the three and six months ended June 30, 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 June 30, 2017 for customer relationships was 22.0 years. Future expected amortization expense is as follows:

(In thousands)	
Remainder of 2017	\$ 11,988
2018	23,977
2019	23,977
2020	23,977
2021	23,977
2022 and thereafter	\$ 418,332

7. Accrued Expenses

Included in accrued expenses are the following:

(In thousands)	June 30, 2017	December 31, 2016
	(Successor)	(Successor)
Annual incentive bonuses	\$ 4,142	\$ 5,997
Payroll, vacation and other compensation	4,731	5,121
Self-insurance reserves	1,730	2,091
Accrued interest	112	4,885
Current income taxes payable	142	2
Workers compensation reserve	1,641	1,321
Interest rate swap contract	665	—
Litigation (Note 14)	2,000	1,100
Other	43	1,139
	<u>\$ 15,206</u>	<u>\$ 21,656</u>

8. Debt

On May 19, 2017, the Company's subsidiary, Hostess Brands, LLC, and its lenders amended the New First Lien Term Loan (Second Amended First Lien Term Loan). The Second Amended First Lien Term Loan requires quarterly payments of interest at a rate of the greater of the applicable LIBOR or 0.75% per annum (LIBOR Floor) plus an applicable margin of 2.50% per annum or the base rate plus an applicable margin of 1.50% per annum. The principal is paid quarterly at a rate of 0.25% of the aggregate principal balance with the remaining principal amount due upon maturity on August 3, 2022. The Second Amended First Lien Term Loan is secured by substantially all the Company's present and future assets through a guarantor agreement. The interest rate charged to the Company on the New First Lien Term Loan from January 1, 2017 through May 18, 2017 was 4.00%. From May 19, 2017 through June 30, 2017, the interest rate charged to the Company on the Second Amended First Lien Term Loan was 3.50%.

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

(In thousands)	June 30, 2017	December 31, 2016
	(Successor)	(Successor)
Second Amended First Lien Term Loan (3.5%)		
Principal	\$ 996,253	\$ —
Unamortized debt premium and issuance costs	3,518	—
	<u>999,771</u>	<u>—</u>
New First Lien Term Loan (4.0%)		
Principal	—	998,750
Unamortized debt premium and issuance costs	—	5,396
	<u>—</u>	<u>1,004,146</u>
Capital lease obligation (6.8%)		
	648	724
Total debt and capital lease obligation	1,000,419	1,004,870
Less: Amounts due within one year	(11,357)	(11,496)
Long-term portion	<u>\$ 989,062</u>	<u>\$ 993,374</u>

At June 30, 2017, minimum debt repayments under the Second Amended First Lien Term Loan are due as follows:

(In thousands)		
Remainder of 2017	\$	4,981
2018		9,963
2019		9,963
2020		9,963
2021		9,963
2022 and thereafter	\$	951,420

Revolving Credit Facility

The Company had no outstanding borrowings under its Revolving Credit Agreement (the “Revolver”) as of June 30, 2017. See Note 14. 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 and \$0.2 million for the three and six months ended June 30, 2016 (predecessor), respectively.

9. Interest Rate Swap

In April 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 this transaction to reduce its exposure to changes in cash flows associated with its variable rate debt and has designated this derivative as a cash flow hedge. At June 30, 2017, the effective fixed interest rate on the long-term debt hedged by this contract was 4.28%.

For the six months ended June 30, 2017, no amounts were recorded in the consolidated statements of operations for ineffectiveness and there were no reclassifications from accumulated other comprehensive loss into earnings. As of June 30, 2017, the fair value of the interest rate swap contract of \$0.7 million was reported within accrued expenses and other liabilities on the consolidated balance sheet. \$2.0 million of unrealized losses recognized in accumulated other comprehensive income as of June 30, 2017 are expected to be reclassified into interest expense through June 30, 2018. The fair value of the interest rate swap contract is measured on a recurring basis by netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves (Level 2).

10. 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 June 30, 2017 or December 31, 2016). As of June 30, 2017 and December 31, 2016, there were 99,992,183 and 98,250,917 shares of Class A common stock issued and outstanding, respectively. At June 30, 2017 and December 31, 2016 there were 30,398,777 and 31,704,988 shares of Class B common stock issued and outstanding, respectively.

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. During the three and six months ended June 30, 2017, 1,306,211 Class B shares were exchanged for Class A common shares.

As of June 30, 2017 and December 31, 2016, there were 37,499,890 and 37,500,000 public warrants, respectively, 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 on December 4, 2016 (30 days after the completion of the Business Combination on November 4, 2016) and expire on December 4, 2021, or earlier upon redemption or liquidation. 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. Subsequent to June 30, 2017, the private placement warrants were registered with the SEC for future potential sales to the public (upon which they will become public warrants). As of June 30, 2017, all private placement warrants were still held by our Sponsor or its permitted transferees.

11. 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 income per share:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
	(Successor)	(Successor)
Numerator:		
Net income attributable to Class A shareholders (in thousands)	\$ 18,830	\$ 34,662
Denominator:		
Weighted-average Class A shares outstanding - basic (excluding non-vested restricted stock awards)	98,943,690	98,600,075
Dilutive effect of warrants	8,144,735	7,371,050
Dilutive effect of restricted stock awards and RSUs	95,916	33,773
Weighted-average shares outstanding - diluted	<u>107,184,341</u>	<u>106,004,898</u>
Net income per Class A share - basic	<u>\$ 0.19</u>	<u>\$ 0.35</u>
Net income per Class A share - dilutive	<u>\$ 0.18</u>	<u>\$ 0.33</u>

For both the three and six months ended June 30, 2017, stock options were 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.

12. Income Taxes

The Company is subject to U.S. federal, 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 itself not 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 annual effective income tax rate. The effective tax rate is estimated at 28.9%. 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 \$358.8 million and \$353.8 million as of June 30, 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 June 30, 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.

13. 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 37%.

The following table summarizes activity related to the tax receivable agreement for the six months ended June 30, 2017:

(In thousands)		
Balance December 31, 2016 (Successor)	\$	165,384
Measurement period adjustment of the Business Combination		(3,016)
Balance arising from exchanges of Class B units for Class A shares		11,530
Balance June 30, 2017 (Successor)	\$	173,898

As of June 30, 2017 the future expected payments under the Tax Receivable Agreement are as follows:

(In thousands)		
Remainder of 2017	\$	—
2018		14,113
2019		10,299
2020		10,023
2021		9,771
Thereafter	\$	129,692

14. 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 \$10.0 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. In July 2017, the arbitration panel awarded damages and costs in the amount of approximately \$2.0 million to be paid by the Company to NFDC. A \$2.0 million reserve for this payment is included within accrued expenses and other current liabilities on the consolidated balance sheet.

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 is a party to 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 accounting standards; therefore, the purchases under these contracts are included as a component of cost of goods sold.

Contractual commitments were as follows:

(In millions)	Total Committed	Commitments within 1 year	Commitments beyond 1 year
Ingredients	\$ 99.8	\$ 83.3	\$ 16.5
Packaging	\$ 28.0	\$ 23.7	\$ 4.3

Letters of Credit

The Company is a party to Letter of Credit arrangements to provide for the issuance of standby letters of credit in the amount of \$1.0 million and \$1.7 million, respectively. The arrangements support the collateral requirements for insurance. The Letters of Credit are 100% secured through our Revolver.

15. 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 and six months ended June 30, 2016 (Predecessor), \$1.2 million and \$2.4 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 is estimated to be approximately \$0.3 million annually.

As part of the Business Combination, the Company agreed to grant 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, (“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 June 30, 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 June 30, 2017, management determined it was not probable that the Company would meet the 2018 MTA EBITDA thresholds.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a leading 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 direct-to-warehouse (“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), “In-Store Bakery,” or “ISB” (which includes Superior, which we purchased in May 2016, and which manufactures and distributes eclairs, madeines, 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 July 15, 2017 our market share was 17.1% 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 July 15, 2017. The Donut and Snack Cake Segments together account for 50.4% 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 continued 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 supplemental pro forma information for the three and six months ended June 30, 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 \$0.3 million annually.

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 non-controlling 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 and Interest Rate Risk Management

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").

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.

On May 19, 2017, the New First Lien Term Loan was amended resulting in a 0.5% decrease to the margin applied to our variable rate (the "Second Amended First Lien Term Loan"). The maturity date of August 3, 2022 remained unchanged.

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.

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.

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

	(Successor)		Historical ¹ (Predecessor)		Pro forma	
	Three Months Ended June 30, 2017	% of Net Revenues	Three Months Ended June 30, 2016	Pro Forma Adjustments	Three Months Ended June 30, 2016	% of Net Revenues
(In thousands, except per share data)						
Net revenue	\$ 203,178	100.0 %	\$ 192,343	\$ —	\$ 192,343	100.0 %
Cost of goods sold	114,734	56.5	105,917	242 ii	106,159	55.2
Gross profit	88,444	43.5	86,426	(242)	86,184	44.8
Operating costs and expenses:						
Advertising and marketing	8,111	4.0	9,949	—	9,949	5.2
Selling expense	8,700	4.3	8,109	—	8,109	4.2
General and administrative	15,739	7.7	11,593	(251) ii	11,342	5.9
Amortization of customer relationships	5,994	3.0	156	5,979 iii	6,135	3.2
Business combination transaction costs	—	—	2,801	(2,226) iv	575	0.3
Related party expenses	108	0.1	1,138	—	1,138	0.6
Recall and other costs	—	—	4,080	—	4,080	2.1
Total operating costs and expenses	38,652	19.1	37,826	3,502	41,328	21.5
Operating income	49,792	24.5	48,600	(3,744)	44,856	23.3 %
Other expense:						
Interest expense, net	10,035	4.9	17,893	(4,624) v	13,269	6.9
Gain on debt modification	(174)	(0.1)	—	—	—	—
Other expense	413	0.2	918	—	918	0.5
Total other expense	10,274	5.0	18,811	(4,624)	14,187	7.4
Income before income taxes	39,518	19.5 %	29,789	880	30,669	15.9 %
Income tax expense	11,311	5.6	317	8,425 vi	8,742	4.5
Net income	28,207	13.9	29,472	(7,545)	21,927	11.4
Less: Net income attributable to the non-controlling interest	9,377	4.6	852	6,733 vii	7,585	3.9
Net income attributable to Class A shareholders	\$ 18,830	9.3 %	\$ 28,620	\$ (14,278)	\$ 14,342	7.5 %
Earnings per Class A share:						
Basic	\$ 0.19				\$ 0.15	
Diluted	\$ 0.18				\$ 0.15	
Weighted-average shares outstanding:						
Basic	98,943,690			97,589,217 viii	97,589,217	
Diluted	107,184,341			97,589,217 viii	97,589,217	

*For convenience, we have included this supplemental pro forma information for the three and six months ended June 30, 2016 that gives effect to the Business Combination as if such information had been consummated on January 1, 2016.

The unaudited pro forma statements of operations for the three months ended June 30, 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.

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. The acquisition of Superior Cake Products, Inc. (“Superior”) occurred in May 2016. The unaudited pro forma consolidated financial information for the three and six months ended June 30, 2016 does not include the results of the Superior acquisition and its related operations prior to the acquisition. We evaluated the impact of the Superior acquisition on the Company’s financial statements and concluded that the impact was not significant nor separately warrant the inclusion of pro forma financial results assuming the acquisition of superior on January 1, 2016 under 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. Certain amounts previously reported within the 2016 Hostess Holdings quarterly financial statements have been reclassified to conform with the current financial statement presentation.
 - 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.
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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 and \$0.2 million for the three and six months ended June 30, 2017, and \$1.2 million and \$2.4 million for the three and six months ended June 30, 2016, respectively. Following completion of the Business Combination, these cash expenses will be approximately \$0.3 million annually.

**Reconciliation of Adjusted EBITDA
(Unaudited)**

(In thousands)	Three Months Ended June 30, 2017	Pro Forma Three Months Ended June 30, 2016
Net income	\$ 28,207	\$ 21,927
Plus non-GAAP adjustments:		
Income tax provision	11,311	8,742
Interest expense, net	10,035	13,269
Depreciation and amortization	9,588	9,184
Share-based compensation	i. 3,839	—
Recall and other costs	ii. —	4,080
Other expense	iii. 239	915
Business combination transaction costs	iv. —	575
Adjusted EBITDA	<u>\$ 63,219</u>	<u>\$ 58,692</u>

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- i. For the three months ended June 30, 2017, we recorded expenses of \$3.8 million related to shares awarded under the Hostess Brands, Inc. 2016 Equity Incentive Plan.
- ii. For the pro forma three months ended June 30, 2016, we incurred costs associated with a Hostess voluntary recall. The recall loss was recovered during the third quarter of 2016. Other costs include amounts the Company incurred related to loss on sale/abandonment of property and bakery shutdown costs, primarily due to utilities, insurance, taxes and maintenance expenses related to the Schiller Park, Illinois bakery, as well as losses related to equipment that we no longer intended to use or had idled.
- iii. For the pro forma three months ended June 30, 2016, other expense primarily consisted of professional fees attributable to the pursuit of a potential acquisition that has since been abandoned, and other special projects. For the three and six months ended June 30, 2017, other expense primarily included professional fees incurred related to the secondary public offering of common stock and the registration of certain privately held warrants offset by a gain recognized related to the modification of our long-term debt.
- iv. For the three months ended June 30, 2016, business combination transaction costs consisted of professional and legal costs for the acquisition of Superior.
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Net Revenue

Net revenue was \$203.2 million for the three months ended June 30, 2017, an increase of \$10.8 million, or 5.6%, compared to the historical and pro forma net revenue of \$192.3 million for the three months ended June 30, 2016. The increase was primarily due to our continued growth from 2017 new product initiatives, including Chocolate Cake Twinkies®, Golden Cupcakes, and White Fudge Ding Dongs®, among others along with growth from our white space opportunities, led by the Company's In-Store Bakery (which contributed \$4.7 million of growth due to the acquisition of Superior and In-Store Bakery product innovation), Food Service and International channels. These amounts were partially offset by declines in our prior year innovations and discontinued items.

Cost of Goods Sold and Gross Profit

Cost of goods sold for the three months ended June 30, 2017 of \$114.7 million represents an increase of \$8.8 million or 8.3% from the historical costs of goods sold of \$105.9 million for the three months ended June 30, 2016 and an increase of \$8.6 million or 8.1% from the pro forma costs of goods sold of \$106.2 million for the three months ended June 30, 2016. The increase in the three months ended June 30, 2017 from both historical and pro forma three months ended June 30, 2016 is primarily attributed to the increase in revenue.

Gross profit was \$88.4 million for the three months ended June 30, 2017, an increase of \$2.0 million, or 2.3%, compared to historical gross profit of \$86.4 million for three months ended June 30, 2016 and an increase of \$2.3 million, or 2.7% compared to pro forma gross profit of \$86.2 million for the three months ended June 30, 2016. The increase in the three months ended June 30, 2017 from both historical and pro forma three months ended June 30, 2016 is primarily attributed to the increase in revenue.

Gross margin was 43.5% for the three months ended June 30, 2017, compared to historical gross margin of 44.9% for the three months ended June 30, 2016 and 44.8% of pro forma gross margin for the three months ended June 30, 2016. The decrease in margin for the three months ended June 30, 2017 from both historical and pro forma gross margin for the three months ended June 30, 2016 is primarily due to a shift in product mix to include a full quarter of our In-Store Bakery operations and growth in multi-pack and club-pack product sales as a percentage of total growth.

Gross profit for the Sweet Baked Goods segment for the three months ended June 30, 2017 was \$82.4 million, or 45.1% of net revenue, compared to gross profit of \$82.2 million or 45.9% of net revenue for the historical three months ended June 30, 2016. Gross margin decreased due to larger growth in multi-pack and club-pack product sales as a percentage of total sales growth.

Gross profit for the Other segment for the three months ended June 30, 2017 was \$6.1 million, or 29.7% of net revenue, compared to historical gross profit of \$4.3 million, or 32.2% of net revenue for the three months ended June 30, 2016. The decrease in margin was attributed to increased In-Store Bakery sales.

Operating Costs and Expenses

Advertising and Marketing

Advertising and marketing expenses for the three months ended June 30, 2017 of \$8.1 million represents a decrease of 18.5% over the historical and pro forma advertising and marketing expenses of \$9.9 million for the three months ended June 30, 2016 as a result of reduced permanent wire display deployment during the quarter.

Selling Expense

Selling expense increased to \$8.7 million, or 4.3% of revenue for the three months ended June 30, 2017 from \$8.1 million, or 4.2% of revenue on a historical and pro forma basis for the three months ended June 30, 2016 due an adjustment to our bad debt reserve.

General and Administrative

General and administrative expenses for the three months ended June 30, 2017 of \$15.7 million represent an increase of \$4.1 million or 35.8% over historical general and administrative expense of \$11.6 million for the three months ended June 30, 2016 and an increase of \$4.4 million or 38.8% over the pro forma general and administrative expenses of \$11.3 million for the three months ended June 30, 2016. The increase of the second quarter 2017 expenses over both the historical and pro forma basis second quarter 2016 expenses is attributed to increased non-cash share-based compensation and increased professional fees relating to public company compliance. During the three months ended June 30, 2017 and June 30, 2016 general and administrative expenses included \$1.0 million and \$1.1 million, respectively, of settlement costs and professional fees related to a specific litigation matter. We consider the matter to be closed and do not expect any further significant costs.

Amortization of Customer Relationships

Amortization of customer relationships was \$6.0 million for the three months ended June 30, 2017, compared to historical customer relationships amortization of \$0.2 million for the three months ended June 30, 2016 and pro forma customer relationships amortization of \$6.1 million for the three months ended June 30, 2016. For the second 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 June 30, 2017 and the three months ended June 30, 2016 on a pro forma basis reflects the new valuation of the customer relationships acquired through the Business Combination.

Related Party Expenses

Related party expenses were \$0.1 million for the three months ended June 30, 2017 compared to historical and pro forma expenses of \$1.1 million for the three months ended June 30, 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.

Recall and Other Costs

On June 3, 2016, we voluntarily recalled approximately 710,000 cases of snack cakes and donuts as a direct result of the recall by our supplier, Grain Craft, of certain lots of its flour for undeclared peanut residue. We also destroyed approximately 200,000 cases of product within our possession that was produced using Grain Craft flour. This resulted in a loss of \$4.0 million for the three months ended June 30, 2016, which was subsequently recovered in the third quarter of 2016. Other costs, on both a historical and pro forma basis, are 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 June 30, 2017.

Operating Income

The 2.5% decrease in operating income from a historical basis of \$48.6 million for the three months ended June 30, 2016 to \$49.8 million for the three months ended June 30, 2017 is primarily from the increase in 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 June 30, 2017 increased \$4.9 million or 11.0% on a pro forma basis from the three months ended June 30, 2016.

Interest Expense, net

Our interest expense decreased 43.9% from \$17.9 million for the historical three months ended June 30, 2016 to \$10.0 million for the three months ended June 30, 2017 primarily from the refinancing of our Second Lien Term Loan in November 2016 and amendment of our First Lien Term Loan in May 2017. In both cases, the effective interest rate on our outstanding debt was decreased. Additionally, \$217 million of principal was repaid as part of the Business Combination. This was offset by the additional interest expense related to our interest rate swap contract, which was effective in May 2017. Excluding expense associated with the principal repayment, interest expense for the three months ended June 30, 2017 decreased 24.4% from pro forma interest expense of \$13.3 million for the three months ended June 30, 2016, as a result of the lower effective interest rate offset by the interest rate swap settlement.

Other Expense

For the three months ended June 30, 2017, we recorded other expenses of \$0.4 million which primarily consisted of legal and professional fees related to a secondary public offering of common stock which was completed in April 2017 and the registration of certain privately held warrants which was completed in June 2017. For the three months ended June 30, 2016, historical and pro forma other expense of \$0.9 million was attributed to professional fees incurred in the pursuit of a potential acquisition that was subsequently abandoned, and other special projects.

Income Taxes

The income tax expense of \$11.3 million for the three months ended June 30, 2017 represents the effective rate of 28.6%, giving effect to the non-controlling interest, a partnership for income tax purposes. The increase of 29.4% or \$2.6 million from the pro forma income tax expense of \$8.7 million for the three months ended June 30, 2016 is due to increased taxable income in the second quarter of 2017. Historical income tax expense for the three months ended June 30, 2016, was \$0.3 million as the Company was a partnership for income tax purposes prior to the Business Combination, with the exception of income attributed to Superior, which is taxed as a corporation.

Adjusted EBITDA

Adjusted EBITDA for the three months ended June 30, 2017, was \$63.2 million, an increase of \$4.5 million, or 7.7%, compared to pro forma adjusted EBITDA of \$58.7 million for the three months ended June 30, 2016. As a percentage of net revenue, adjusted EBITDA was 31.1% for the three months ended June 30, 2017, compared to pro forma adjusted EBITDA of 30.5% of net revenues for the three months ended June 30, 2016.

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.

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

(In thousands)	Unaudited Segment Financial Data	
	Three Months Ended June 30, 2017 (Successor)	Three Months Ended June 30, 2016 (Predecessor)
Net revenue:		
Sweet Baked Goods	\$ 182,746	\$ 179,088
Other	20,432	13,255
Net revenue	<u>\$ 203,178</u>	<u>\$ 192,343</u>
Gross profit:		
Sweet Baked Goods	\$ 82,373	\$ 82,152
Other	6,071	4,274
Gross profit	<u>\$ 88,444</u>	<u>\$ 86,426</u>
Capital expenditures (1):		
Sweet Baked Goods	\$ 7,662	\$ 13,156
Other	167	50
Capital expenditures	<u>\$ 7,829</u>	<u>\$ 13,206</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 June 30, 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:

	Unaudited Segment Data	
	Three Months Ended	
<u>(% of Consolidated Net Revenues)</u>	June 30, 2017	June 30, 2016
Sweet Baked Goods	20.1 %	21.1 %
Other	0.8 %	0.7 %
Total	20.9 %	21.8 %

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

	(Successor)		Historical ¹ (Predecessor)		Pro forma	
	Six Months Ended June 30, 2017	% of Net Revenues	Six Months Ended June 30, 2016	Pro Forma Adjustments	Six Months Ended June 30, 2016	% of Net Revenues
(In thousands, except per share data)						
Net revenue	\$ 387,716	100.0%	\$ 352,560	—	\$ 352,560	100.0%
Cost of goods sold	219,976	56.7	195,809	500 ii	196,309	55.7
Gross profit	167,740	43.3%	156,751	(500)	156,251	44.3
Operating costs and expenses:						
Advertising and marketing	15,433	4.0	17,148	—	17,148	4.9
Selling expense	16,812	4.3	14,904	—	14,904	4.2
General and administrative	28,921	7.5	21,231	(307) ii	20,924	5.9
Amortization of customer relationships	11,867	3.1	312	12,012 iii	12,324	3.5
Impairment of property and equipment	—	—	7,267	—	7,267	2.1
Business combination transaction costs	—	—	3,016	(2,441) iv	575	0.2
Related party expenses	192	—	2,373	—	2,373	0.7
Recall and other costs	—	—	4,260	—	4,260	1.2
Total operating costs and expenses	73,225	18.9%	70,511	9,264	79,775	22.7
Operating income	94,515	24.4	86,240	(9,764)	76,476	21.7
Other expense:						
Interest expense, net	19,865	5.1	35,742	(9,248) v	26,494	7.5
Gain on debt modification	(174)	—	—	—	—	—
Other expense	1,127	0.3	2,172	—	2,172	0.6
Total other expense	20,818	5.4%	37,914	(9,248)	28,666	8.1
Income before income taxes	73,697	19.0	48,326	(516)	47,810	13.6
Income tax expense	21,291	5.5	317	13,308 vi	13,625	3.9
Net income	52,406	13.5	48,009	(13,824)	34,185	9.7%
Less: Net income attributable to the non-controlling interest	17,744	4.6	1,780	10,102 vii	11,882	3.4
Net income attributable to Class A shareholders	\$ 34,662	8.9%	\$ 46,229	(23,926)	\$ 22,303	6.3%
Earnings per Class A share:						
Basic	\$ 0.35				\$ 0.23	
Diluted	\$ 0.33				\$ 0.23	
Weighted-average shares outstanding:						
Basic	98,600,075			97,589,217 viii	97,589,217	
Diluted	106,004,898			97,589,217 viii	97,589,217	

* For convenience, we have included this supplemental pro forma information for the six months ended June 30, 2016 that gives effect to the Business Combination as if such information had been consummated on January 1, 2016.

The unaudited pro forma statements of operations for the six months ended June 30, 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.

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. The acquisition of Superior Cake Products, Inc. (“Superior”) occurred in May 2016. The unaudited pro forma consolidated financial information for the three and six months ended June 30, 2016 does not include the results of the Superior acquisition and its related operations prior to the acquisition. We evaluated the impact of the Superior acquisition on the Company’s financial statements and concluded that the impact was not significant nor separately warrant the inclusion of pro forma financial results assuming the acquisition of superior on January 1, 2016 under 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. Certain amounts previously reported within the 2016 Hostess Holdings quarterly financial statements have been reclassified to conform with the current financial statement presentation.
 - 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 and \$0.2 million for the three and six months ended June 30, 2017, and \$1.2 million and \$2.4 million for the three and six months ended June 30, 2016, respectively. Following completion of the Business Combination, these cash expenses will be approximately \$0.3 million annually.

Reconciliation of Adjusted EBITDA
(Unaudited)

(In thousands)	Six Months Ended June 30, 2017	Pro Forma Six Months Ended June 30, 2016
Net income	\$ 52,406	\$ 34,185
Plus non-GAAP adjustments:		
Income tax provision	21,291	13,625
Interest expense, net	19,865	26,494
Depreciation and amortization	18,854	18,249
Share-based compensation	i. 4,360	—
Recall and other costs	ii. —	4,260
Other expense	iii. 953	2,169
Impairment of property and equipment	iv. —	7,267
Business Combination Transaction Costs	v. —	575
Adjusted EBITDA	<u>\$ 117,729</u>	<u>\$ 106,824</u>

- i. For the six months ended June 30, 2017, we recorded expenses of \$4.4 million related to units awarded under the Hostess Brands, Inc. 2016 Equity Incentive Plan.
- ii. For the pro forma six months ended June 30, 2016, we incurred costs associated with a Hostess voluntary recall. The recall loss was recovered during the third quarter of 2016. Other costs include amounts we incurred related to loss on sale/abandonment of property and bakery shutdown costs, primarily due to utilities, insurance, taxes and maintenance expenses related to the Schiller Park, Illinois bakery, as well as losses related to equipment that we no longer intended to use or had idled.
- iii. For the pro forma six months ended June 30, 2016, other expense primarily consisted of professional fees attributable to the pursuit of a potential acquisition that has since been abandoned, and other special projects. For the three and six months ended June 30, 2017, other expense primarily included professional fees incurred related to the secondary public offering of common stock and the registration of certain privately held warrants offset by a gain recognized related to the modification of our long-term debt.
- iv. During the first quarter of 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.
- v. For the six months ended June 30, 2016, business combination transaction costs consisted of professional and legal costs for the acquisition of Superior.

Net Revenue

Net revenue was \$387.7 million for the six months ended June 30, 2017, an increase of \$35.2 million, or 10.0%, compared to the historical and pro forma net revenue of \$352.6 million for the six months ended June 30, 2016. The increase was primarily due to our growth from 2017 new product initiatives, including Chocolate Cake Twinkies®, Golden Cupcakes, and White Fudge Ding Dongs®, among others along with growth from our white space opportunities led by our In-Store Bakery (which contributed \$14.4 million of growth due to the acquisition of Superior and In-Store Bakery product innovation), Food Service and International channels. These amounts were partially offset by declines in prior year innovations and discontinued items.

Cost of Goods Sold and Gross Profit

Cost of goods sold for the six months ended June 30, 2017 of \$220.0 million represents an increase of \$24.2 million or 12.3% from the historical costs of goods sold of \$195.8 million for the six months ended June 30, 2016 and an increase of \$23.7 million or 12.1% from the pro forma costs of goods sold of \$196.3 million for the six months ended June 30, 2016. The increase in the six months ended June 30, 2017 from both historical and pro forma six months ended June 30, 2016 is primarily attributed to the increase in revenue.

Gross profit was \$167.7 million for the six months ended June 30, 2017, an increase of \$11.0 million, or 7.0%, compared to historical gross profit of \$156.8 million for six months ended June 30, 2016 and an increase of \$11.5 million, or 7.3% compared to pro forma gross profit of \$156.3 million for the six months ended June 30, 2016. The increase in the six months ended June 30, 2017 from both historical and pro forma six months ended June 30, 2016 is primarily attributed to the increase in revenue.

Gross margin was 43.3% for the six months ended June 30, 2017, compared to historical gross margin of 44.5% for the six months ended June 30, 2016 and 44.3% of pro forma gross margin for the six months ended June 30, 2016. The decrease in margin for six months ended June 30, 2017 from both historical and pro forma gross margin for these six months ended June 30, 2016 is primarily due to product mix which includes our In-Store Bakery segment.

Gross profit for the Sweet Baked Goods segment for the six months ended June 30, 2017 was \$157.3 million, or 44.8% of net revenue, compared to gross profit of \$150.5 million or 45.1% of net revenue for the historical six months ended June 30, 2016. Gross margin decreased due to larger growth in our multi-pack and club-pack product sales as a percentage of total sales growth.

Gross profit for the Other segment for the six months ended June 30, 2017 was \$10.5 million, or 28.7% of net revenue, compared to historical gross profit of \$6.2 million, or 33.1% of net revenue for the six months ended June 30, 2016. The decrease in margin was attributed to In-Store Bakery sales.

Operating Costs and Expenses

Advertising and Marketing

Advertising and marketing expenses for the six months ended June 30, 2017 of \$15.4 million represents a decrease of 10.0% over the historical and pro forma advertising and marketing expenses of \$17.1 million for the six months ended June 30, 2016, as a result of reduced permanent display deployment during the year.

Selling Expense

Selling expense increased to \$16.8 million, or 4.3% of revenue for the six months ended June 30, 2017 from \$14.9 million, or 4.2% of revenue on a historical and pro forma basis for the six months ended June 30, 2016 due to the addition of In-Store Bakery operations and an adjustment to our bad debt expense.

General and Administrative

General and administrative expenses for the six months ended June 30, 2017 of \$28.9 million represents an increase of \$7.7 million or 36.2% over historical general and administrative expense of \$21.2 million for the six months ended June 30, 2016 and an increase of \$8.0 million or 38.2% over the pro forma general and administrative expenses of \$20.9 million for the six months ended June 30, 2016. The increase of the 2017 expenses over both the historical and pro forma basis 2016 expenses is attributed to increased non-cash share-based compensation, increased professional fees related to public company compliance, and increased staffing levels to support our growth. During the six months ended June 30, 2017 and June 30, 2016 general and administrative expenses included \$1.7 million and \$1.2 million, respectively, from arbitration award and professional fees related to a specific litigation matter. We consider the matter to be closed and does not expect any significant further costs.

Amortization of Customer Relationships

Amortization of customer relationships was \$11.9 million for the six months ended June 30, 2017, compared to historical customer relationships amortization of \$0.3 million for the six months ended June 30, 2016 and pro forma customer relationships amortization of \$12.3 million for the six months ended June 30, 2016. For the second 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 six months ended June 30, 2017 and the six months ended June 30, 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 six months ended June 30, 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 six months ended June 30, 2017.

Recall and Other Costs

On June 3, 2016, we voluntarily recalled approximately 710,000 cases of snack cakes and donuts as a direct result of the recall by our supplier, Grain Craft, of certain lots of its flour for undeclared peanut residue. We also destroyed approximately 200,000 cases of product within our possession that was produced using Grain Craft flour. This resulted in a loss of \$4.0 million for the six months ended June 30, 2016, which was subsequently recovered in the third quarter of 2016. Other costs, on both a historical and pro forma basis, are 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 six months ended June 30, 2017.

Related Party Expenses

Related party expenses were \$0.2 million for the six months ended June 30, 2017 compared to historical and pro forma expenses of \$2.4 million for the six months ended June 30, 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 9.6% increase in operating income from a historical basis of \$86.2 million for the six months ended June 30, 2016 to \$94.5 million for the six months ended June 30, 2017 is primarily from the increase in sales in 2017, 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 six months ended June 30, 2017 increased \$18.0 million or 23.5% on a pro forma basis from the six months ended June 30, 2016.

Interest Expense, net

Our interest expense decreased 44.4% from \$35.7 million for the historical six months ended June 30, 2016 to \$19.9 million for the six months ended June 30, 2017 primarily from the refinancing of our Second Lien Term Loan in November 2016 and the amendment of our First Lien Term Loan in May 2017. In both cases, our effective interest rate on outstanding debt was decreased. Additionally, \$217 million of principal was repaid as part of the Business Combination. This was offset by the additional interest expense related to our interest rate swap, which was effective in May 2017. Excluding expense associated with the principal repayment, interest expense for the six months ended June 30, 2017 decreased 24.9% from pro forma interest expense of \$26.5 million for the six months ended June 30, 2016, as a result of the lower effective interest rate offset by the interest rate swap settlement.

Other Expense

For the six months ended June 30, 2017, we recorded other expenses of \$1.1 million which primarily consisted of legal and professional fees related to a secondary public offering of common stock which was completed in April 2017 and the registration of certain privately held warrants which was completed in June 2017. For the six months ended June 30, 2016, historical and pro forma other expense of \$2.2 million was attributed to professional fees incurred in the pursuit of a potential acquisition that was subsequently abandoned, and other special projects.

Income Taxes

The income tax expense of \$21.3 million for the six months ended June 30, 2017 represents the effective rate of 28.9%, giving effect to the non-controlling interest, a partnership for income tax purposes. The increase of 56.5% or \$7.7 million from the pro forma income tax expense of \$13.6 million for the six months ended June 30, 2016 is due to increased taxable income in 2017. There was no historical income tax expense until the acquisition of Superior in May 2016, as the Company was a partnership for income tax purposes prior to the Business Combination.

Adjusted EBITDA

Adjusted EBITDA was \$117.7 million for the six months ended June 30, 2017, an increase of \$10.9 million, or 10.2%, compared to pro forma adjusted EBITDA of \$106.8 million for the pro forma six months ended June 30, 2016. As a percentage of net revenue, adjusted EBITDA was 30.4% for the first six months of 2017, which was comparable to pro forma adjusted EBITDA of 30.3% of net revenues in the same period last year.

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.

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

(In thousands)	Unaudited Segment Financial Data	
	Six Months Ended June 30, 2017 (Successor)	Six Months Ended June 30, 2016 (Predecessor)
Net revenue:		
Sweet Baked Goods	\$ 351,178	\$ 333,815
Other	36,538	18,745
Net revenue	<u>\$ 387,716</u>	<u>\$ 352,560</u>
Gross profit:		
Sweet Baked Goods	\$ 157,250	\$ 150,545
Other	10,490	6,206
Gross profit	<u>\$ 167,740</u>	<u>\$ 156,751</u>
Capital expenditures (1):		
Sweet Baked Goods	\$ 15,645	\$ 17,084
Other	438	50
Capital expenditures	<u>\$ 16,083</u>	<u>\$ 17,134</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 six months ended June 30, 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:

(% of Consolidated Net Revenues)	Unaudited Segment Data	
	Six Months Ended	
	June 30, 2017 (Successor)	June 30, 2016 (Predecessor)
Sweet Baked Goods	19.5%	21.5%
Other	0.7%	0.4%
Total	20.2%	21.9%

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 revolving credit agreement (“Revolver”). 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 June 30, 2017 and December 31, 2016 of \$39.1 million and \$20.6 million, respectively. We have the ability to borrow under our Revolver to meet obligations as they come due. As of June 30, 2017, we had approximately \$97.3 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 six months ended June 30, 2017 (Successor) were \$67.8 million and for the six months ended June 30, 2016 (Predecessor) were \$54.2 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 six months ended June 30, 2017 (Successor) and 2016 (Predecessor) were \$15.9 million and \$62.0 million, respectively. Cash outflows from investing activities include purchases of property and equipment of \$15.1 million for the six months ended June 30, 2017 and \$50.0 million for the acquisition of Superior (excluding cash acquired) and \$15.7 million for the purchase of property and equipment for the six months ended June 30, 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 \$15.0 million to \$25.0 million during the remainder of 2017.

Cash Flows from Financing Activities

Cash flows used in financing activities were \$12.5 million for the six months ended June 30, 2017 (Successor) and \$9.9 million for the six months ended June 30, 2016 (Predecessor). 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 Revolver as of June 30, 2017.

As of June 30, 2017, \$996.3 million aggregate principal amount of the Second Amended First Lien Term Loan and \$2.7 million aggregate principal amount of letters of credit, reducing the amount available under the Revolver, were outstanding. See Note 14 -- "Commitments and Contingencies" to the Consolidated Financial Statements in Item 1 for information regarding the letters of credits.

As of June 30, 2017, the Company was in compliance with the covenants under the Second Amended First Lien Term Loan and the Revolver.

Commitments and Contingencies

As of June 30, 2017, the Company has commitments and contingencies for tax receivable arrangements, debt, operating leases, and advance purchase commitments. Refer to Note 14--Commitments and Contingencies to the Consolidated Financial Statements included in Part I, Item 1 on this Quarterly Report on Form 10-Q.

<u>Contractual Commitments as of June 30, 2017</u>	<u>Total Committed</u>	<u>Commitments within</u> <u>1 year</u>	<u>Commitments</u> <u>beyond 1 year</u>
<u>(In thousands)</u>			
Tax receivable agreement	\$ 173,898	\$ —	\$ 173,898
Second Amended First Term Loan	996,253	9,963	986,290
Interest payments on Term Loan	202,936	39,501	163,435
Distribution Center (Shorewood, IL)	3,091	1,752	1,339
Corporate office lease (Kansas City, MO)	486	243	243
Corporate office lease (Dallas, TX)	12	12	—
Superior capital lease	648	200	448
Ingredient procurement	99,800	83,300	16,500
Packaging procurement	28,000	23,700	4,300
	<u>\$ 1,505,124</u>	<u>\$ 158,671</u>	<u>\$ 1,346,453</u>

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 Second Amended First Lien Term Loan and Revolver each bear interest on outstanding borrowings thereunder at variable interest rates. The rate in effect at June 30, 2017 for the outstanding Second Amended First Lien Term Loan was a LIBOR-based rate of 3.50% per annum. At June 30, 2017, the subsidiary borrower had \$97.3 million available for borrowing, net of letters of credit of \$2.7 million, under its Revolver. At June 30, 2017, the subsidiary borrower had an aggregate principal balance of \$996.3 million outstanding under the Second Amended First Lien Term Loan. Increases in market interest rates would cause interest expense to increase and earnings before income taxes to decrease.

To manage the risk related to our variable rate debt, we have 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 change in interest expense and earnings before income taxes resulting from a change in market interest rates would be dependent upon the weighted average outstanding borrowings and the portion of those borrowings that are hedged by our swap contract 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 \$1.2 million and \$2.5 million for the three and six months ended June 30, 2017, respectively, after accounting for the impact of our swap 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 six months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As of June 30, 2017 we continue to engage in the process of the design and implementation of our internal controls over financial reporting in a manner commensurate with the scale of our operations subsequent to the November 4, 2016 Business Combination. We have hired a third-party consultant to assist us with this engagement.

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 4-- 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 are set forth in 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 August 8, 2017.

HOSTESS BRANDS, INC.

By

/s/ Thomas Peterson

Thomas Peterson
Executive Vice President, Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
10.1	Incremental Assumption and Amendment Agreement No. 2, dated as of May 19, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 22, 2017)
10.2	Second Amended and Restated First Lien Credit Agreement, dated as of May 19, 2017 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on May 22, 2017)
10.3	Form of Non-Competition and Non-Solicitation 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.

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

This Non-Competition and Non-Solicitation Agreement ("Agreement") is entered into as of this ____ day of _____, 2017, by and among Hostess Brands, LLC ("HB") and _____ ("Employee") (collectively the "Parties").

WHEREAS, Employee is employed by HB under separate arrangements which form no part of this Agreement and HB is not obligated by this Agreement to continue Employee's employment for any particular time period, or render any specific terms or conditions;

WHEREAS, during the course of employment, Employee will (i) learn confidential information regarding HB customers, (ii) establish, maintain and improve knowledge of or relationships or goodwill with HB customers, and/or (iii) learn HB trade secrets or confidential information;

WHEREAS, HB and Employee desire to enter into this Agreement for the purpose of protecting HB's trade secrets, confidential information, customer, distributor and employee goodwill, and customer, distributor and employee relations; and

WHEREAS, THE EMPLOYEE HAS REVIEWED THE MATTERS RECITED IN THE PARAGRAPHS ABOVE AND CONFIRMS THAT S/HE AGREES WITH THOSE RECITALS.

NOW, THEREFORE, in consideration of the foregoing recitals, the promises and covenants set forth herein and other good and valuable consideration, the Parties agree as follows:

- 1. Covenant Not to Compete.** During Employee's employment with HB and continuing for a period of six (6) months after the termination of the employment relationship by either party, with or without cause, including voluntary termination, Employee will not directly or indirectly, as an employee, agent, partner, consultant, representative, contractor or in any other capacity, work for a competitor of HB in the in-store bakery or sweet baked goods business. This restriction is limited to the United States.
- 2. Covenant Not to Solicit.** During Employee's employment with HB and continuing for a period of six (6) months after the termination of the employment relationship by either party, with or without cause, including voluntary termination, Employee will not, directly or indirectly, (a) as an employee, agent, partner, consultant, representative, contractor or in any other capacity, solicit, call on, divert, negotiate with or communicate with any customer or distributor of HB with whom Employee had contact during the final one (1) year period of Employee's employment with HB for the purpose of providing or selling competitive products or services to those of HB or diverting or inducing the diversion of business from HB and (b) engage, recruit, solicit for employment or engagement, offer employment to or hire, or otherwise seek to influence or alter any relationship with any person who is an employee of HB; provided, however, that this provision shall not restrict Employee from offering employment to or otherwise engaging any current or former employee of HB who responds to a general advertisement. The term "contact" as used above, shall mean any customer or distributor: (i) with which Employee had dealings; or (ii) for which Employee had responsibility for engaging, supervising, overseeing or conducting HB's relationship.
- 3. Consideration and Severance.** In exchange for the promises and covenants set forth herein, Employee will receive a one-time discretionary wage increase. In the event Employee later receives severance payment pursuant to HB's severance policy, Employee shall be bound by the terms of the severance policy, including but not limited to the restrictive covenants contained therein, which would supersede the restrictive covenants contained in this Agreement.

4. **Assignment.** HB may assign its rights under the Agreement to any successor. This Agreement and the respective rights, duties, and obligations of the Employee hereunder may not be assigned or delegated by Employee. Any attempted assignment by Employee shall be null and void.
5. **Entire Agreement.** Subject to Paragraph 3 above, this Agreement constitutes the entire agreement and understanding between HB and Employee concerning the restrictive covenants contained herein. This Agreement may only be modified by a writing signed by the parties.
6. **Waiver.** The waiver by any party of the breach of any covenant or provision in this Agreement shall not operate or be construed as a waiver of any subsequent breach by any party.
7. **Severability and Modification.** The provisions of this Agreement are severable, it being the intention of the parties that should any provision hereof be invalid or unenforceable, such invalidity or unenforceability of any provision shall not affect the remaining provisions hereof, but the same shall remain in full force and effect to the fullest extent permitted by law as if such invalid or unenforceable provision were omitted. In the event of a finding of partial invalidity or unenforceability, the parties agree that a court may modify such provision to the minimum extent necessary to avoid such invalidity or unenforceability, provided such modification does not alter the purpose or intent of such provision.
8. **Applicable Law.** This Agreement shall be governed by and construed in accordance with the laws of the state of Missouri.
9. **Headings.** Headings in this Agreement are for informational purposes only and shall not be used to construe the intent of this Agreement.
10. **Counterparts.** This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same agreement

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

Hostess Brands, LLC

By: _____ Date: _____

Employee

Date: _____

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**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: August 8, 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: August 8, 2017

/s/ Thomas A. Peterson

*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 June 30, 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.

Date: August 8, 2017

/s/ William D. Toler

*President and Chief Executive Officer
(Principal Executive 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.

**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 June 30, 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: August 8, 2017

*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.