

TreeHouse Foods, Inc.
Form 10-Q
August 08, 2013
Table of Contents

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 and Exchange Act of 1934

For the Quarterly Period Ended June 30, 2013.

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 001-32504

TreeHouse Foods, Inc.

(Exact name of the registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

20-2311383
(I.R.S. employer identification no.)

2021 Spring Road, Suite 600
Oak Brook, IL
(Address of principal executive offices)

60523
(Zip Code)
(Registrant's telephone number, including area code) **(708) 483-1300**

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of Common Stock, \$0.01 par value, outstanding as of July 31, 2013: 36,373,615

Table of Contents

Table of Contents

	Page
<u>Part I Financial Information</u>	
<u>Item 1 Financial Statements (Unaudited)</u>	3
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	46
<u>Item 4 Controls and Procedures</u>	47
<u>Report of Independent Registered Public Accounting Firm</u>	48
<u>Part II Other Information</u>	
<u>Item 1 Legal Proceedings</u>	49
<u>Item 1A Risk Factors</u>	49
<u>Item 5 Other Information</u>	49
<u>Item 6 Exhibits</u>	49
<u>Signatures</u>	50

Table of Contents**Part I Financial Information****Item 1. Financial Statements****TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

	June 30, 2013	December 31, 2012
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,345	\$ 94,407
Investments	7,551	
Receivables, net	115,604	124,648
Inventories, net	389,447	347,353
Deferred income taxes	8,245	7,998
Prepaid expenses and other current assets	20,044	14,005
Total current assets	569,236	588,411
Property, plant and equipment, net	419,872	425,307
Goodwill	1,067,068	1,073,191
Intangible assets, net	400,550	417,561
Other assets, net	19,757	21,403
Total assets	\$ 2,476,483	\$ 2,525,873
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 195,410	\$ 185,086
Current portion of long-term debt	1,667	1,944
Total current liabilities	197,077	187,030
Long-term debt	813,224	898,100
Deferred income taxes	214,048	212,461
Other long-term liabilities	44,491	49,027
Total liabilities	1,268,840	1,346,618
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 10,000 shares authorized, none issued		
Common stock, par value \$0.01 per share, 90,000 shares authorized, 36,350		
and 36,197 shares issued and outstanding, respectively	363	362
Additional paid-in capital	732,058	726,582
Retained earnings	510,489	468,951
Accumulated other comprehensive loss	(35,267)	(16,640)

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Total stockholders' equity		1,207,643	1,179,255
Total liabilities and stockholders' equity		\$ 2,476,483	\$ 2,525,873

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Net sales	\$ 526,346	\$ 527,421	\$ 1,066,456	\$ 1,051,232
Cost of sales	416,778	420,830	842,716	829,709
Gross profit	109,568	106,591	223,740	221,523
Operating expenses:				
Selling and distribution	31,394	33,858	63,796	68,152
General and administrative	29,106	22,704	56,579	49,308
Other operating (income) expense, net	(136)	(49)	1,282	411
Amortization expense	8,227	8,624	16,726	16,887
Total operating expenses	68,591	65,137	138,383	134,758
Operating income	40,977	41,454	85,357	86,765
Other expense (income):				
Interest expense	12,230	12,452	25,008	25,664
Interest income	(322)	(14)	(1,000)	(14)
Loss (gain) on foreign currency exchange	841	(450)	480	406
Other expense (income), net	345	1,970	(368)	1,509
Total other expense	13,094	13,958	24,120	27,565
Income before income taxes	27,883	27,496	61,237	59,200
Income taxes	9,318	7,985	19,698	17,615
Net income	\$ 18,565	\$ 19,511	\$ 41,539	\$ 41,585
Net earnings per common share:				
Basic	\$.51	\$.54	\$ 1.14	\$ 1.15
Diluted	\$.50	\$.53	\$ 1.11	\$ 1.12
Weighted average common shares:				
Basic	36,337	36,057	36,323	36,038
Diluted	37,373	37,132	37,312	37,113

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013 (Unaudited)	2012	2013 (Unaudited)	2012
Net income	\$ 18,565	\$ 19,511	\$ 41,539	\$ 41,585
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(11,609)	(9,271)	(19,467)	(1,784)
Pension and post-retirement reclassification adjustment (1)	349	282	759	561
Derivative reclassification adjustment (2)	41	41	81	81
Other comprehensive (loss) income	(11,219)	(8,948)	(18,627)	(1,142)
Comprehensive income	\$ 7,346	\$ 10,563	\$ 22,912	\$ 40,443

- (1) Net of tax of \$217 and \$177 for the three months ended June 30, 2013 and 2012, respectively, and \$435 and \$353 for the six months ended June 30, 2013 and 2012, respectively.
- (2) Net of tax of \$25 for the three months ended June 30, 2013 and 2012, respectively, and \$51 for the six months ended June 30, 2013 and 2012, respectively.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Six Months Ended June 30,	
	2013	2012
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 41,539	\$ 41,585
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	38,412	26,064
Amortization	16,726	16,887
Mark to market (gain) loss on derivative contracts	(499)	1,581
Mark to market gain on investments	(389)	
Excess tax benefits from stock-based compensation	(1,097)	(2,440)
Stock-based compensation	7,108	5,748
(Gain) loss on disposition of assets	(231)	1,263
Deferred income taxes	2,138	3,387
Other	557	1,408
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	7,730	2,655
Inventories	(43,488)	(12,285)
Prepaid expenses and other assets	(4,728)	2,399
Accounts payable, accrued expenses and other liabilities	6,264	6,366
Net cash provided by operating activities	70,042	94,618
Cash flows from investing activities:		
Purchase of investments	(7,585)	
Additions to property, plant and equipment	(35,641)	(30,019)
Additions to other intangible assets	(3,255)	(4,302)
Acquisition of business, net of cash acquired		(25,000)
Proceeds from sale of fixed assets	1,072	46
Net cash used in investing activities	(45,409)	(59,275)
Cash flows from financing activities:		
Borrowings under revolving credit facility	111,800	198,900
Payments under revolving credit facility	(195,800)	(160,400)
Payments on capitalized lease obligations	(1,149)	(1,033)
Net receipts (payments) related to stock-based award activities	(1,192)	(3,878)
Excess tax benefits from stock-based compensation	1,097	2,440
Net cash (used in) provided by financing activities	(85,244)	36,029
Effect of exchange rate changes on cash and cash equivalents	(5,451)	(407)
Net (decrease) increase in cash and cash equivalents	(66,062)	70,965
Cash and cash equivalents, beginning of period	94,407	3,279
Cash and cash equivalents, end of period	\$ 28,345	\$ 74,244

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the six months ended June 30, 2013

(Unaudited)

1. Basis of Presentation

The unaudited Condensed Consolidated Financial Statements included herein have been prepared by TreeHouse Foods, Inc. (the Company, we, us, or our), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) applicable to quarterly reporting on Form 10-Q. In our opinion, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as permitted by such rules and regulations. The Condensed Consolidated Financial Statements and related notes should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Results of operations for interim periods are not necessarily indicative of annual results. In the Condensed Consolidated Statements of Cash Flows, the Company reclassified the loss (gain) on foreign currency exchange into the other line in cash flows from operating activities, as the amounts are not material and this change will result in a presentation format that is consistent with others in our industry. This reclassification had no effect on operating cash flows, or total cash flows for the periods presented. In the Condensed Consolidated Balance Sheets, the Company reclassified the Assets held for sale line into the Prepaid expenses and other current assets line, as the amounts are not material. As a result of investing our excess cash in interest bearing accounts in 2013, we are earning interest income, and as a result, we have presented interest income as a separate line item in our Condensed Consolidated Statements of Income in 2013. To be consistent with the current year presentation, we have reclassified interest income, which had previously been presented net of interest expense. These reclassifications had no effect on reported net income, total assets, or cash flows.

The preparation of our Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to use our judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements, and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from these estimates.

A detailed description of the Company's significant accounting policies can be found in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

2. Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*, clarifying how entities are required to measure obligations resulting from joint and several liability arrangements and outlining the required disclosures around these liabilities. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company's joint and several guarantees of indebtedness as discussed in Note 11, Long-Term Debt, are guaranteed by our 100 percent owned subsidiaries. The Company does not believe this ASU will have a significant impact on the Company's financial statements.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income (AOCI). This ASU expands the disclosure requirements by requiring an entity to disaggregate the total change of each component of other comprehensive income (OCI) and present separately any reclassification adjustments and current period OCI. This ASU also requires disclosure of the individual income statement line items affected by the amounts reclassified out of AOCI. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. This ASU does not change the accounting for AOCI, and only requires new disclosures. See Note 14 for the required disclosures.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Restructuring**

Soup restructuring - On August 7, 2012, following a strategic review of the soup category, the Company announced a restructuring plan that includes the closure of its Mendota, Illinois soup plant. Subsequently, the Company amended the plan to include reductions to the cost structure of the Pittsburgh, Pennsylvania facility by reorganizing and simplifying the soup business at the Pittsburgh facility. The restructuring is expected to reduce manufacturing costs by streamlining operations and transferring production to the Company's Pittsburgh, Pennsylvania soup plant. Production at the Mendota facility was primarily related to the North American Retail Grocery segment. Production ended as of December 31, 2012, with full plant closure in the second quarter of 2013. Total costs are expected to be approximately \$26.7 million as detailed below, of which \$5.6 million is expected to be in cash. The total expected costs increased from \$20.5 million as of March 31, 2013, as estimates were refined and the scope of the restructuring was expanded to include the Company's conversion from the use of wells to city water. Expenses associated with the restructuring are primarily aggregated in the Other operating expense, net line of the Condensed Consolidated Statements of Income, with the exception of accelerated depreciation, which is recorded in Cost of sales.

Seaforth, Ontario, Canada - On August 7, 2012, the Company announced the closure of its salad dressing plant in Seaforth, Ontario, Canada and the transfer of production to facilities where the Company has lower production costs. Production at the Seaforth, Ontario facility is primarily related to the North American Retail Grocery segment and is expected to end in the fourth quarter of 2013, with full plant closure also expected in the fourth quarter of 2013. Total costs to close the Seaforth facility are expected to be approximately \$12.3 million as detailed below, of which \$5.6 million is expected to be in cash. The total expected costs decreased from \$13.4 million, as of March 31, 2013, as estimates were refined. Expenses incurred associated with the facility closure are primarily aggregated in the Other operating expense, net line of the Condensed Consolidated Statements of Income. Certain costs, primarily accelerated depreciation, are recorded in Cost of sales.

During the third quarter of 2012, and concurrent with the restructurings as noted above, the Company reviewed the fixed assets for impairment at the product category level and no impairment was indicated. During the review, the useful lives of the related assets were reassessed and shortened to be consistent with the dates that production at the facilities were expected to end. The change in estimated useful lives related to the restructurings resulted in accelerated depreciation of \$7.2 million and \$12.7 million for the three and six months ended June 30, 2013, respectively.

Below is a summary of the restructuring costs:

	Soup Restructuring				Total Expected Costs
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	Cumulative Costs To Date		
	(In thousands)				
Accelerated depreciation	\$ 5,833	\$ 9,981	\$ 16,684	\$ 21,088	
Severance and outplacement	(44)	(12)	745	816	
Other closure costs	(536)	218	798	4,814	
Total	\$ 5,253	\$ 10,187	\$ 18,227	\$ 26,718	

	Seaforth Closure				Total Expected Costs
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	Cumulative Costs To Date		

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	(In thousands)							
Accelerated depreciation	\$	1,356	\$	2,716	\$	6,724	\$	6,736
Severance and outplacement		200		496		2,745		2,772
Other closure costs		874		1,347		1,825		2,789
 Total	 \$	 2,430	 \$	 4,559	 \$	 11,294	 \$	 12,297

Naturally Fresh restructuring - As disclosed in Note 4, the Company acquired substantially all of the assets of Naturally Fresh, Inc. (Naturally Fresh) in the second quarter of 2012. Subsequent to the acquisition, during the third quarter of 2012, the Company closed the trucking operations of Naturally Fresh that were acquired in the purchase.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Liabilities recorded as of June 30, 2013 associated with the restructurings of the Soup category, Seaforth facility, and Naturally Fresh relate to severance and are included in the Accounts payable and accrued expenses line of the Condensed Consolidated Balance Sheets. The table below presents a reconciliation of the severance liability as of June 30, 2013.

	Severance Liability (In thousands)
Balance as of January 1, 2013	\$ 2,686
Expense	485
Payments	(2,088)
Foreign exchange	(62)
Adjustments	(43)
Balance as of June 30, 2013	\$ 978

4. Acquisitions

On August 8, 2013, the Company announced it had entered into a definitive agreement to acquire all of the outstanding equity interests of Associated Brands Management Holdings Inc., Associated Brands Holdings Limited Partnership, Associated Brands GP Corporation and 6726607 Canada Ltd., (collectively, Associated Brands), a privately owned Canadian company and a leading private label manufacturer of powdered drinks, specialty teas and sweeteners, from TorQuest Partners LLC and other shareholders. The Company has agreed to pay CAD \$187 million in cash for the business, subject to an adjustment for working capital. The acquisition of Associated Brands is expected to strengthen the Company's retail presence in private label dry grocery and will introduce a line of specialty tea products to complement its fast growing single serve coffee business. The transaction is expected to close in the third quarter of 2013, subject to the satisfaction of customary closing conditions, and will be financed through borrowings under the Company's existing \$750 million credit facility.

On June 24, 2013, the Company announced it had entered into a definitive agreement to acquire all of the outstanding shares of Cains Foods, L.P. (Cains), a privately owned Ayer, Massachusetts based manufacturer of shelf stable mayonnaise, dressings and sauces. The Cains product portfolio offers retail and foodservice customers a wide array of packaging sizes, sold under both private label and branded products. The Company agreed to pay \$35 million in cash for the business, subject to an adjustment for working capital and taxes. The acquisition is expected to expand the Company's footprint in the Northeast United States, enhance its foodservice presence, and enrich its packaging capabilities. The transaction closed on July 1, 2013 and was financed through borrowings under the Company's existing \$750 million credit facility. The acquisition will be accounted for under the acquisition method of accounting. The required disclosures have not been provided as the initial accounting for the business combination was not complete prior to the issuance of these financial statements.

On November 30, 2012, the Company completed the acquisition of selected assets of the aseptic cheese and pudding business from Associated Milk Producers Inc. (AMPI), a dairy marketing cooperative based in New Ulm, Minnesota. The business was integrated into the Company's existing aseptic operations within its Food Away From Home segment, and increased the Company's presence in the aseptic category. The purchase price was \$4 million. The acquisition was financed through borrowings under the Company's existing \$750 million credit facility. Components of the acquisition include fixed assets and intangible assets such as customer lists, formulas and goodwill. The acquisition is being accounted for under the acquisition method of accounting and the results of operations are included in our financial statements from the date of acquisition. There were no acquisition costs. Due to the size and timing of this acquisition, it did not have a material impact on the Company's financial statements. As such, the Company has not presented pro forma disclosures. There have been no changes to the purchase price allocation in 2013.

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On April 13, 2012, the Company completed its acquisition of substantially all the assets of Naturally Fresh, a privately owned Atlanta, Georgia based manufacturer of refrigerated dressings, sauces, marinades, dips and specialty items sold within each of our segments. The purchase price was approximately \$26 million, net of cash. The acquisition was financed through borrowings under the Company's existing \$750 million credit facility. The acquisition expanded the Company's refrigerated manufacturing and packaging capabilities, broadened its distribution footprint and further developed its presence within the growing category of fresh foods. Naturally Fresh's Atlanta facility, coupled with the Company's existing West Coast and Chicago based refrigerated food plants, is expected to allow the Company to more efficiently service customers from coast to coast. The acquisition is being accounted for under the acquisition method of accounting and the results of operations are included in our financial statements from the date of acquisition and are in each of our segments. Pro forma disclosures related to the transaction are not included since they are not considered material. There have been no changes to the purchase price allocation in 2013.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Investments**

	June 30, 2013 (In thousands)	
U.S. equity	\$	4,284
Non-U.S. equity		1,392
Fixed income		1,875
 Total investments	 \$	 7,551

We determine the appropriate classification of our investments at the time of purchase and reevaluate such designation as of each balance sheet date. The Company accounts for investments in debt and marketable equity securities as held-to-maturity, available-for-sale, or trading, depending on their classification. The investments held by the Company are classified as trading securities and are stated at fair value, with changes in fair value recorded as a component of the Interest income line on the Condensed Consolidated Statements of Income. Cash flows from purchases, sales and maturities of trading securities are included in cash flows from investing activities in the Condensed Consolidated Statements of Cash Flows based on the nature and purpose for which the securities were acquired.

Our investments are considered trading securities and include U.S. equity, non-U.S. equity and fixed income securities that are classified as short-term investments and carried at fair value on the Condensed Consolidated Balance Sheets. The U.S. equity, non-U.S. equity, and fixed income securities are classified as short-term investments as they have characteristics of other current assets and are actively managed.

We consider temporary cash investments with an original maturity of three months or less to be cash equivalents. As of June 30, 2013 and December 31, 2012, \$9.0 million and \$94.1 million, respectively, represents cash and equivalents held in Canada in local currency, and is convertible into other currencies. The cash and equivalents held in Canada is expected to be used for general corporate purposes in Canada, including capital projects and acquisitions. During June 2013, the Company temporarily transferred \$85.0 million from Canada to the U.S., a portion of which was used to pay down the revolving credit facility. In July 2013, the Company transferred the \$85.0 million, plus interest, back to Canada.

For the six months ended June 30, 2013, we recognized net unrealized gains totaling \$0.4 million that are included in the Interest income line of the Condensed Consolidated Statements of Income. For the three months ended June 30, 2013, we recognized an insignificant amount of net unrealized gains. Additionally, for the three and six months ended June 30, 2013, we recognized realized gains totaling \$0.1 million that are included in the Interest income line of the Condensed Consolidated Statements of Income. When securities are sold, their cost is determined based on the first-in, first-out method.

6. Inventories

	June 30, 2013	December 31, 2012
	(In thousands)	
Raw materials and supplies	\$ 134,299	\$ 128,186
Finished goods	275,704	238,575
LIFO reserve	(20,556)	(19,408)

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Total \$ 389,447 \$ 347,353

Approximately \$82.7 million and \$77.7 million of our inventory was accounted for under the Last-in, First-out (LIFO) method of accounting at June 30, 2013 and December 31, 2012, respectively.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Property, Plant and Equipment**

	June 30, 2013	December 31, 2012
	(In thousands)	
Land	\$ 25,739	\$ 25,517
Buildings and improvements	179,623	177,824
Machinery and equipment	488,706	478,394
Construction in progress	37,238	31,335
Total	731,306	713,070
Less accumulated depreciation	(311,434)	(287,763)
Property, plant and equipment, net	\$ 419,872	\$ 425,307

Depreciation expense was \$20.0 million and \$13.6 million for the three months ended June 30, 2013 and 2012, respectively, and \$38.4 million and \$26.1 million for the six months ended June 30, 2013 and 2012, respectively. Included in depreciation expense for the three and six months ended June 30, 2013 is \$7.2 million and \$12.7 million of accelerated depreciation, respectively.

8. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the six months ended June 30, 2013 are as follows:

	North American Retail Grocery	Food Away From Home	Industrial and Export	Total
	(In thousands)			
Balance at December 31, 2012	\$ 845,216	\$ 94,393	\$ 133,582	\$ 1,073,191
Currency exchange adjustment	(5,355)	(768)		(6,123)
Balance at June 30, 2013	\$ 839,861	\$ 93,625	\$ 133,582	\$ 1,067,068

The Company has not incurred any goodwill impairments since its inception.

The gross carrying amount and accumulated amortization of intangible assets other than goodwill as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013		December 31, 2012	
Gross Carrying	Accumulated	Net Carrying	Gross Carrying	Accumulated
				Net Carrying

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	Amount	Amortization (In thousands)	Amount	Amount	Amortization (In thousands)	Amount
Intangible assets with indefinite lives:						
Trademarks	\$ 31,363	\$	\$ 31,363	\$ 32,805	\$	\$ 32,805
Intangible assets with finite lives:						
Customer-related	445,608	(119,359)	326,249	448,825	(107,761)	341,064
Non-compete agreements	120	(30)	90	120	(18)	102
Trademarks	20,810	(6,358)	14,452	20,810	(5,722)	15,088
Formulas/recipes	6,945	(5,094)	1,851	7,017	(4,631)	2,386
Computer software	46,240	(19,695)	26,545	43,339	(17,223)	26,116
Total	\$ 551,086	\$ (150,536)	\$ 400,550	\$ 552,916	\$ (135,355)	\$ 417,561

Amortization expense on intangible assets for the three months ended June 30, 2013 and 2012 was \$8.2 million and \$8.6 million, respectively, and \$16.7 million and \$16.9 million for the six months ended June 30, 2013 and 2012, respectively. Estimated amortization expense on intangible assets for 2013 and the next four years is as follows:

	(In thousands)
2013	\$ 33,539
2014	\$ 32,827
2015	\$ 31,645
2016	\$ 31,450
2017	\$ 30,873

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Accounts Payable and Accrued Expenses**

	June 30, 2013	December 31, 2012
	(In thousands)	
Accounts payable	\$ 127,900	\$ 121,404
Payroll and benefits	32,710	26,661
Interest and taxes	15,215	16,205
Health insurance, workers' compensation and other insurance costs	7,374	6,879
Marketing expenses	5,607	7,180
Other accrued liabilities	6,604	6,757
Total	\$ 195,410	\$ 185,086

10. Income Taxes

Income tax expense was recorded at an effective rate of 33.4% and 32.2% for the three and six months ended June 30, 2013, respectively, compared to 29.0% and 29.8% for the three and six months ended June 30, 2012, respectively. The Company's effective tax rate is favorably impacted by an intercompany financing structure entered into in conjunction with the E.D. Smith Foods, Ltd. (E.D. Smith) acquisition in 2007. The increase in the effective tax rate for the three and six months ended June 30, 2013 as compared to 2012, is attributable to an increase in state tax expense and to the tax impact of a shift in revenues between tax jurisdictions.

During the second quarter of 2012, the IRS initiated an examination of TreeHouse Foods' 2010 tax year and the Canadian Revenue Agency (CRA) initiated an examination of the E.D. Smith 2008, 2009, and 2010 tax years. During the second quarter of 2013, the IRS initiated an examination of TreeHouse Foods' 2011 tax year. The TreeHouse Foods and E.D. Smith examinations are expected to be completed in 2013 or 2014. The Company has examinations in process with various state taxing authorities, which are expected to be completed in 2013 or 2014.

Management estimates that it is reasonably possible that the total amount of unrecognized tax benefits could decrease by as much as \$9.4 million within the next 12 months, primarily as a result of the resolution of audits currently in progress and the lapsing of statutes of limitations.

11. Long-Term Debt

	June 30, 2013	December 31, 2012
	(In thousands)	
Revolving credit facility	\$ 309,000	\$ 393,000
High Yield Notes	400,000	400,000
Senior notes	100,000	100,000
Tax increment financing and other debt	5,891	7,044
Total debt outstanding	814,891	900,044
Less current portion	(1,667)	(1,944)

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Total long-term debt	\$	813,224	\$	898,100
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Revolving Credit Facility The Company is party to an unsecured revolving credit facility with an aggregate commitment of \$750 million, of which \$430.2 million was available as of June 30, 2013. The revolving credit facility matures September 23, 2016. In addition, as of June 30, 2013, there were \$10.8 million in letters of credit under the revolving credit facility that were issued but undrawn. Our revolving credit facility contains various financial and other restrictive covenants and requires that the Company maintains certain financial ratios, including a leverage and interest coverage ratio. The Company is in compliance with all applicable covenants as of June 30, 2013. The Company's average interest rate on debt outstanding under its revolving credit facility for the three and six months ended June 30, 2013 was 1.53% and 1.60%, respectively.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

High Yield Notes The Company's 7.75% High Yield Notes in aggregate principal amount of \$400 million are due March 1, 2018 (the High Yield Notes). The High Yield Notes are guaranteed, jointly and severally, by the Company's 100 percent owned subsidiary Bay Valley Foods, LLC (Bay Valley) and its 100 percent owned subsidiaries EDS Holdings, LLC; Sturm Foods, Inc. (Sturm Foods); and S.T. Specialty Foods. In addition, certain other of the Company's subsidiaries may become guarantors from time to time in accordance with the applicable Indenture and may fully, jointly, severally and unconditionally guarantee the Company's payment obligations under any series of debt securities offered. The Indenture governing the High Yield Notes provides, among other things, that the High Yield Notes will be senior unsecured obligations of the Company. The Indenture contains various restrictive covenants of which the Company is in compliance as of June 30, 2013.

Senior Notes The Company has outstanding \$100 million in aggregate principal amount of 6.03% senior notes due September 30, 2013, issued in a private placement pursuant to a note purchase agreement (the Note Purchase Agreement) among the Company and a group of purchasers. The Note Purchase Agreement contains covenants that limit the ability of the Company and its subsidiaries to, among other things, merge with other entities, change the nature of the business, create liens, incur additional indebtedness or sell assets. The Note Purchase Agreement also requires the Company to maintain certain financial ratios. The Company is in compliance with the applicable covenants as of June 30, 2013. The Company will continue to classify these notes as long term, as the Company has the ability and intent to refinance them on a long-term basis using our revolving credit facility or other long-term financing arrangements.

Tax Increment Financing The Company owes \$1.8 million related to redevelopment bonds pursuant to a Tax Increment Financing Plan and has agreed to make certain payments with respect to the principal amount of the bonds through May 2019.

12. Earnings Per Share

Basic earnings per share is computed by dividing net income by the number of weighted average common shares outstanding during the reporting period. The weighted average number of common shares used in the diluted earnings per share calculation is determined using the treasury stock method and includes the incremental effect related to the Company's outstanding stock-based compensation awards.

The following table summarizes the effect of the share-based compensation awards on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Weighted average common shares outstanding	36,337	36,057	36,323	36,038
Assumed exercise/vesting of equity awards (1)	1,036	1,075	989	1,075
Weighted average diluted common shares outstanding	37,373	37,132	37,312	37,113

(1) Incremental shares from stock-based compensation awards (equity awards) are computed by the treasury stock method. Equity awards, excluded from our computation of diluted earnings per share because they were anti-dilutive, were 0.7 million for the three and six months ended June 30, 2013, and 0.6 million for the three and six months ended June 30, 2012, respectively.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Stock-Based Compensation**

Income before income taxes for the three and six month periods ended June 30, 2013 includes share-based compensation expense of \$3.7 million and \$7.1 million, respectively. Share-based compensation expense for the three and six month periods ended June 30, 2012 was \$3.1 million and \$5.7 million, respectively. The tax benefit recognized related to the compensation cost of these share-based awards was approximately \$1.3 million and \$2.6 million for the three and six months ended June 30, 2013, respectively, and \$1.0 million and \$1.8 million for the three and six month periods ended June 30, 2012, respectively.

The following table summarizes stock option activity during the six months ended June 30, 2013. Stock options are granted under our long-term incentive plan, and generally have a three year vesting schedule, which vest one-third on each of the first three anniversaries of the grant date. Stock options expire ten years from the grant date.

	Employee Options (In thousands)	Director Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value (In thousands)
Outstanding, December 31, 2012	2,468	72	\$ 33.19	4.4	\$ 50,809
Granted	277		\$ 65.96		
Forfeited	(3)		\$ 61.41		
Exercised	(36)		\$ 25.80		
Outstanding, June 30, 2013	2,706	72	\$ 36.52	4.5	\$ 80,738
Vested/expected to vest, at June 30, 2013	2,623	72	\$ 35.65	4.4	\$ 80,657
Exercisable, June 30, 2013	2,203	72	\$ 30.63	3.5	\$ 79,437

Compensation costs related to unvested options totaled \$8.4 million at June 30, 2013 and will be recognized over the remaining vesting period of the grants, which averages 2.4 years. The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used to calculate the fair value of stock options issued in 2013 include the following: expected volatility of 30.21%, expected term of six years, risk free rate of 0.995% and no dividends. The average grant date fair value of stock options granted in the six months ended June 30, 2013 was \$20.46. Stock options issued during the six months ended June 30, 2013 totaled 277 thousand. The aggregate intrinsic value of stock options exercised during the six months ended June 30, 2013 and 2012 was approximately \$1.3 million and \$1.7 million, respectively. The tax benefit recognized from stock option exercises was \$0.5 million and \$0.6 million for the six months ended June 30, 2013 and 2012, respectively.

In addition to stock options, the Company also has outstanding restricted stock units and performance unit awards. These awards are granted under our long-term incentive plan. Employee restricted stock unit awards vest based on the passage of time, and generally vest one-third on each anniversary of the grant date. Director restricted stock units generally vest on the first anniversary of the grant date. Certain directors have deferred receipt of their awards until their departure from the Board of Directors, or a specified date. The following table summarizes the restricted stock unit activity during the six months ended June 30, 2013.

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	Employee Restricted Stock Units (In thousands)	Weighted Average Grant Date Fair Value	Director Restricted Stock Units (In thousands)	Weighted Average Grant Date Fair Value
Outstanding, at December 31, 2012	353	\$ 53.62	78	\$ 39.88
Granted	118	\$ 65.91	19	\$ 65.97
Vested	(142)	\$ 52.72	(2)	\$ 61.41
Forfeited	(14)	\$ 57.77	-	\$ -
Outstanding, at June 30, 2013	315	\$ 58.45	95	\$ 44.27

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Future compensation costs related to restricted stock units is approximately \$14.7 million as of June 30, 2013, and will be recognized on a weighted average basis, over the next 2.2 years. The grant date fair value of the awards granted in 2013 is equal to the Company's closing stock price on the grant date. Vested awards during the six months ended June 30, 2013 and 2012 had a fair value on the vest date of \$9.3 million and \$8.5 million, respectively.

Performance unit awards are granted to certain members of management. These awards contain service and performance conditions. For each of the three performance periods, one third of the units will accrue, multiplied by a predefined percentage between 0% and 200%, depending on the achievement of certain operating performance measures. Additionally, for the cumulative performance period, a number of units will accrue, equal to the number of units granted, multiplied by a predefined percentage between 0% and 200%, depending on the achievement of certain operating performance measures, less any units previously accrued. Accrued units will be converted to stock or cash, at the discretion of the Compensation Committee, generally, on the third anniversary of the grant date. The Company intends to settle these awards in stock and has the shares available to do so. On March 2, 2013, based on achievement of operating performance measures, 1,225 performance units were converted into 2,450 shares of stock, a two to one conversion ratio. On June 28, 2013, based on achievement of operating performance measures, 32,371 performance units were converted into 28,308 shares of stock, an average conversion ratio of 0.87 shares for each performance unit. The following table summarizes the performance unit activity during the six months ended June 30, 2013:

	Performance Units (In thousands)	Weighted Average Grant Date Fair Value
Unvested, at December 31, 2012	165	\$ 56.57
Granted	89	\$ 65.65
Vested	(29)	\$ 46.31
Forfeited	(4)	\$ 46.46
Unvested, at June 30, 2013	221	\$ 61.91

Future compensation cost related to the performance units is estimated to be approximately \$12.3 million as of June 30, 2013, and is expected to be recognized over the next 2.7 years. The grant fair value of the awards is equal to the Company's closing stock price on the date of grant.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. Accumulated Other Comprehensive Loss**

Accumulated Other Comprehensive Loss consists of the following components, all of which are net of tax, except for the foreign currency translation adjustment:

	Foreign Currency Translation (1)	Unrecognized Pension and Postretirement Benefits (2)	Derivative Financial Instrument (3)	Accumulated Other Comprehensive Loss
	(In thousands)			
Balance at December 31, 2012	\$ (2,007)	\$ (14,525)	\$ (108)	\$ (16,640)
Other comprehensive loss	(19,467)			(19,467)
Reclassifications from accumulated other comprehensive loss		759	81	840
Other comprehensive (loss) income	(19,467)	759	81	(18,627)
Balance at June 30, 2013	\$ (21,474)	\$ (13,766)	\$ (27)	\$ (35,267)
Balance at December 31, 2011	\$ (10,268)	\$ (11,825)	\$ (269)	\$ (22,362)
Other comprehensive loss	(1,784)			(1,784)
Reclassifications from accumulated other comprehensive loss		561	81	642
Other comprehensive (loss) income	(1,784)	561	81	(1,142)
Balance at June 30, 2012	\$ (12,052)	\$ (11,264)	\$ (188)	\$ (23,504)

- (1) The foreign currency translation adjustment is not net of tax, as it pertains to the Company's permanent investment in its Canadian subsidiary, E.D. Smith.
- (2) The unrecognized pension and post-retirement benefits reclassification is presented net of tax of \$435 and \$353 for the six months ended June 30, 2013 and 2012, respectively.
- (3) The derivative financial instrument reclassification is presented net of tax of \$51 for the six months ended June 30, 2013 and 2012.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Condensed Consolidated Statements of Income lines impacted by reclassifications out of Accumulated Other Comprehensive Loss are outlined below:

	Reclassifications from Accumulated Other Comprehensive Loss				Affected line in The Condensed Consolidated Statements of Income
	Three months ended June 30,		Six months ended June 30,		
	2013	2012	2013	2012	
	(In thousands)		(In thousands)		
Derivative financial instrument	\$ 66	\$ 66	\$ 132	\$ 132	Interest expense
Income taxes	25	25	51	51	Income taxes
Net of tax	\$ 41	\$ 41	\$ 81	\$ 81	
Amortization of defined benefit pension items:					
Prior service costs	\$ 96	\$ 133	\$ 193	\$ 268	(a)
Unrecognized net loss	470	326	940	646	(a)
Other			61		
Total before tax	566	459	1,194	914	
Income taxes	217	177	435	353	Income taxes
Net of tax	\$ 349	\$ 282	\$ 759	\$ 561	

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost. See Note 15 for additional details.

15. Employee Retirement and Postretirement Benefits

Pension, Profit Sharing and Postretirement Benefits Certain employees and retirees participate in pension and other postretirement benefit plans. Employee benefit plan obligations and expenses included in the Condensed Consolidated Financial Statements are determined based on plan assumptions, employee demographic data, including years of service and compensation, benefits and claims paid, and employer contributions.

Components of net periodic pension expense are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Service cost	\$ 647	\$ 633	\$ 1,295	\$ 1,266
Interest cost	628	591	1,255	1,182

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Expected return on plan assets	(643)	(581)	(1,285)	(1,162)
Amortization of prior service costs	114	151	228	302
Amortization of unrecognized net loss	459	309	917	618
Net periodic pension cost	\$ 1,205	\$ 1,103	\$ 2,410	\$ 2,206

The Company contributed \$4.9 million to the pension plans in the first six months of 2013. The Company does not expect to make additional contributions to the plans in 2013.

Table of Contents

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of net periodic postretirement expense are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Service cost	\$ 5	\$ 8	\$ 10	\$ 16
Interest cost	37	39	72	78
Amortization of prior service costs	(18)	(18)	(35)	(36)
Amortization of unrecognized net loss	11	14	23	28
Net periodic postretirement cost	\$ 35	\$ 43	\$ 70	\$ 86

The Company expects to contribute approximately \$0.2 million to the postretirement health plans during 2013.

Net periodic pension costs are recorded in the Cost of sales and General and administrative lines of the Condensed Consolidated Statements of Income.

16. Other Operating (Income) Expense, Net

The Company incurred other operating (income) expense for the three and six months ended June 30, 2013 and 2012, which consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Restructuring	\$ (136)	\$ (8)	\$ 1,282	\$ 419
Other expense		(41)		(8)
Total other operating (income) expense, net	\$ (136)	\$ (49)	\$ 1,282	\$ 411

17. Supplemental Cash Flow Information

	Six Months Ended June 30,	
	2013	2012
	(In thousands)	
Interest paid	\$ 23,136	\$ 24,166
Income taxes paid	\$ 26,206	\$ 17,482

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Accrued purchase of property and equipment	\$	4,795	\$	3,187
Accrued other intangible assets	\$	584	\$	1,333
Accrued purchase price	\$		\$	956

Non-cash financing activities for the six months ended June 30, 2013 and 2012 include the settlement of 150,777 shares and 224,259 shares, respectively, of restricted stock, restricted stock units and performance units, where shares were withheld to satisfy the minimum statutory tax withholding requirements.

18. Commitments and Contingencies

Litigation, Investigations and Audits The Company is party in the ordinary course of business to certain claims, litigation, audits and investigations. The Company believes that it has established adequate reserves to satisfy any liability that may be incurred in connection with any such currently pending or threatened matters, none of which are significant. The settlement of any such currently pending or threatened matters is not expected to have a material impact on our financial position, annual results of operations or cash flows.

Table of Contents

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Derivative Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by derivative instruments include interest rate risk, foreign currency risk and commodity price risk. Derivative contracts are entered into for periods consistent with the related underlying exposure and do not constitute positions independent of those exposures.

The Company manages its exposure to changes in interest rates by optimizing the use of variable-rate and fixed-rate debt and by utilizing interest rate swaps to hedge our exposure to changes in interest rates, to reduce the volatility of our financing costs, and to achieve a desired proportion of fixed versus floating-rate debt, based on current and projected market conditions, with a bias toward fixed-rate debt.

Due to the Company's operations in Canada, we are exposed to foreign currency risks. The Company enters into foreign currency contracts to manage the risk associated with foreign currency cash flows. The Company's objective in using foreign currency contracts is to establish a fixed foreign currency exchange rate for the net cash flow requirements for purchases that are denominated in U.S. dollars. These contracts do not qualify for hedge accounting and changes in their fair value are recorded in the Condensed Consolidated Statements of Income, with their fair value recorded on the Condensed Consolidated Balance Sheets. As of June 30, 2013 and 2012, the Company did not have any foreign currency contracts outstanding.

Certain commodities we use in the production and distribution of our products are exposed to market price risk. The Company utilizes a combination of derivative contracts, purchase orders and various short and long-term supply arrangements to manage commodity price risk. The majority of commodity forward contracts are not derivatives, and those that are, generally qualify for the normal purchase exception under the guidance for derivative instruments and hedging activities, and therefore are not subject to its provisions.

The Company's derivative commodity contracts may include contracts for diesel, oil, plastics, natural gas, electricity, and other commodity contracts that do not meet the requirements for the normal purchase exception.

The Company's diesel contracts are used to manage the Company's risk associated with the underlying cost of diesel fuel used to deliver products. The contracts for oil and plastics are used to manage the Company's risk associated with the underlying commodity cost of a significant component used in packaging materials. Contracts for natural gas and electricity are used to manage the Company's risk associated with the utility costs of its manufacturing facilities, and commodity contracts that are derivatives, that do not meet the normal purchase exception are used to manage the price risk associated with raw material costs. As of June 30, 2013, the Company had outstanding contracts for the purchase of 20,079 megawatts of electricity, expiring throughout 2013 and outstanding contracts for the purchase of 903,356 dekatherms of natural gas, expiring throughout 2013. As of June 30, 2013, there were 3.0 million gallons of outstanding diesel fuel contracts that expire in the second half of 2013.

Table of Contents

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table identifies the derivative, its fair value, and location on the Condensed Consolidated Balance Sheet:

	Balance Sheet Location	Fair Value	
		June 30, 2013	December 31, 2012
Liability Derivative:			
(In thousands)			
Commodity contracts	Accounts payable and accrued expenses	\$ 430	\$ 929
		\$ 430	\$ 929

We recorded the following gains and losses on our derivative contracts in the Condensed Consolidated Statements of Income:

	Location of (Loss) Gain Recognized in Income	Three Months Ended June 30,		Six Months Ended June 30,	
		2013	2012	2013	2012
Mark to market unrealized (loss) gain:					
(In thousands)					
Commodity contracts	Other expense (income), net	\$ (274)	\$ (2,098)	\$ 499	\$ (1,581)
Total unrealized (loss) gain		(274)	(2,098)	499	(1,581)
Realized (loss) gain					
Commodity contracts	Cost of sales		(187)		28
Commodity contracts	Selling and distribution	(163)	15	(129)	73
Total realized (loss) gain		(163)	(172)	(129)	101
Total (loss) gain		\$ (437)	\$ (2,270)	\$ 370	\$ (1,480)

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20. Fair Value**

The following table presents the carrying value and fair value of our financial instruments as of June 30, 2013 and December 31, 2012:

	June 30, 2013		December 31, 2012		Level
	Carrying Value (In thousands)	Fair Value	Carrying Value (In thousands)	Fair Value	
Not recorded at fair value (liability):					
Revolving credit facility	\$ (309,000)	\$ (307,151)	\$ (393,000)	\$ (393,353)	2
Senior notes	\$ (100,000)	\$ (101,099)	\$ (100,000)	\$ (102,341)	2
High Yield Notes	\$ (400,000)	\$ (435,520)	\$ (400,000)	\$ (433,500)	2
Recorded on a recurring basis at fair value (liability) asset:					
Commodity contracts	\$ (430)	\$ (430)	\$ (929)	\$ (929)	2
Investments	\$ 7,551	\$ 7,551	\$	\$	1

Cash and cash equivalents and accounts receivable are financial assets with carrying values that approximate fair value. Accounts payable are financial liabilities with carrying values that approximate fair value.

The fair value of the revolving credit facility, senior notes, High Yield Notes and commodity contracts are determined using Level 2 inputs. Level 2 inputs are inputs other than quoted market prices that are observable for an asset or liability, either directly or indirectly. The fair value of the revolving credit facility and senior notes were estimated using present value techniques and market based interest rates and credit spreads. The fair value of the Company's High Yield Notes was estimated based on quoted market prices for similar instruments, where the inputs are considered Level 2, due to their infrequent trading volume.

The fair value of the commodity contracts are based on an analysis comparing the contract rates to the forward curve rates throughout the term of the contracts. The commodity contracts are recorded at fair value on the Condensed Consolidated Balance Sheets.

The fair value of the investments is determined using Level 1 inputs. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement dates. The investments are recorded at fair value on the Condensed Consolidated Balance Sheets.

Table of Contents

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Segment and Geographic Information and Major Customers

The Company manages operations on a company-wide basis, thereby making determinations as to the allocation of resources in total rather than on a segment-level basis. The Company has designated reportable segments based on how management views its business. The Company does not segregate assets between segments for internal reporting. Therefore, asset-related information has not been presented. The reportable segments, as presented below, are consistent with the manner in which the Company reports its results to the chief operating decision maker.

The Company evaluates the performance of its segments based on net sales dollars and direct operating income (gross profit less freight out, sales commissions and direct selling and marketing expenses). The amounts in the following tables are obtained from reports used by senior management and do not include income taxes. Other expenses not allocated include unallocated selling and distribution expenses, unallocated costs of sales and unallocated corporate expenses. The accounting policies of the Company's segments are the same as those described in the summary of significant accounting policies set forth in Note 1 to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013 (In thousands)	2012	2013 (In thousands)	2012
Net sales to external customers:				
North American Retail Grocery	\$ 375,744	\$ 371,500	\$ 761,825	\$ 750,541
Food Away From Home	85,675	87,885	167,488	163,234
Industrial and Export	64,927	68,036	137,143	137,457
Total	\$ 526,346	\$ 527,421	\$ 1,066,456	\$ 1,051,232
Direct operating income:				
North American Retail Grocery	\$ 61,140	\$ 54,899	\$ 126,449	\$ 116,504
Food Away From Home	11,958	10,479	22,858	20,276
Industrial and Export	13,509	8,302	25,914	19,300
Total	86,607	73,680	175,221	156,080
Unallocated selling and distribution expenses	(1,323)	(947)	(2,739)	(2,709)
Unallocated costs of sales (1)	(7,110)		(12,538)	
Unallocated corporate expense	(37,197)	(31,279)	(74,587)	(66,606)
Operating income	40,977	41,454	85,357	86,765
Other expense	(13,094)	(13,958)	(24,120)	(27,565)
Income before income taxes	\$ 27,883	\$ 27,496	\$ 61,237	\$ 59,200

(1) Primarily related to accelerated depreciation and other charges related to restructurings.

Geographic Information The Company had revenues to customers outside of the United States of approximately 13.4% and 13.3% of total consolidated net sales in the six months ended June 30, 2013 and 2012, respectively, with 12.1% and 12.1% going to Canada, respectively.

Major Customers Wal-Mart Stores, Inc. and affiliates accounted for approximately 19.5% and 20.0% of consolidated net sales in the six months ended June 30, 2013 and 2012, respectively. No other customer accounted for more than 10% of our consolidated net sales.

Product Information The following table presents the Company's net sales by major products for the three and six months ended June 30, 2013 and 2012.

Products	Three Months Ended June 30,		Six Months Ended June 30,	
	2013 (In thousands)	2012	2013 (In thousands)	2012
Non-dairy creamer	\$ 79,963	\$ 83,738	\$ 171,137	\$ 172,897

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Pickles	85,466	88,624	156,376	159,500
Salad Dressings	81,503	77,529	154,282	140,646
Powdered drinks	71,419	52,340	140,114	105,673
Mexican and other sauces	63,234	63,428	121,405	115,069
Soup and Infant Feeding	36,926	52,684	92,004	124,623
Hot cereals	33,981	33,801	81,770	76,969
Dry dinners	28,586	28,189	57,780	61,364
Aseptic products	23,753	24,519	47,682	48,686
Jams	14,266	15,007	29,121	31,544
Other Products	7,249	7,562	14,785	14,261
Total net sales	\$ 526,346	\$ 527,421	\$ 1,066,456	\$ 1,051,232

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22. Guarantor and Non-Guarantor Financial Information**

The Company's High Yield Notes are guaranteed by its 100 percent owned subsidiary Bay Valley and its 100 percent owned subsidiaries EDS Holdings, LLC, Sturm Foods and S.T. Specialty Foods. There are no significant restrictions on the ability of the parent company or any guarantor to obtain funds from its subsidiaries by dividend or loan. The following condensed supplemental consolidating financial information presents the results of operations, financial position and cash flows of the parent company, its guarantor subsidiaries, its non-guarantor subsidiaries and the eliminations necessary to arrive at the information for the Company on a consolidated basis as of June 30, 2013 and 2012, and for the three and six months ended June 30, 2013, and 2012. The equity method has been used with respect to investments in subsidiaries. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

Condensed Supplemental Consolidating Balance Sheet**June 30, 2013**

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 18,809	\$ 542	\$ 8,994	\$	\$ 28,345
Investments			7,551		7,551
Receivables, net	132	96,783	18,689		115,604
Inventories, net		340,259	49,188		389,447
Deferred income taxes		8,115	130		8,245
Prepaid expenses and other current assets	26,782	11,564	2,026	(20,328)	20,044
Total current assets	45,723	457,263	86,578	(20,328)	569,236
Property, plant and equipment, net	14,088	373,157	32,627		419,872
Goodwill		959,440	107,628		1,067,068
Investment in subsidiaries	1,785,869	201,249		(1,987,118)	
Intercompany accounts receivable (payable) net	143,225	(78,377)	(64,848)		
Deferred income taxes	14,061			(14,061)	
Identifiable intangible and other assets, net	47,459	304,136	68,712		420,307
Total assets	\$ 2,050,425	\$ 2,216,868	\$ 230,697	\$ (2,021,507)	\$ 2,476,483
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued expenses	\$ 18,557	\$ 181,858	\$ 15,323	\$ (20,328)	\$ 195,410
Current portion of long-term debt		1,664	3		1,667

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Total current liabilities	18,557	183,522	15,326	(20,328)	197,077
Long-term debt	809,000	4,204	20		813,224
Deferred income taxes	2,181	211,826	14,102	(14,061)	214,048
Other long-term liabilities	13,044	31,447			44,491
Stockholders' equity	1,207,643	1,785,869	201,249	(1,987,118)	1,207,643
Total liabilities and stockholders' equity	\$ 2,050,425	\$ 2,216,868	\$ 230,697	\$ (2,021,507)	\$ 2,476,483

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Supplemental Consolidating Balance Sheet****December 31, 2012**

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$	\$ 269	\$ 94,138	\$	\$ 94,407
Accounts receivable, net	113	104,622	19,913		124,648
Inventories, net		301,286	46,067		347,353
Deferred income taxes		7,860	138		7,998
Prepaid expenses and other current assets	1,276	11,857	872		14,005
Total current assets	1,389	425,894	161,128		588,411
Property, plant and equipment, net	14,427	374,215	36,665		425,307
Goodwill		959,440	113,751		1,073,191
Investment in subsidiaries	1,740,451	209,833		(1,950,284)	
Intercompany accounts receivable (payable), net	267,016	(118,778)	(148,238)		
Deferred income taxes	13,275			(13,275)	
Identifiable intangible and other assets, net	48,797	315,258	74,909		438,964
Total assets	\$ 2,085,355	\$ 2,165,862	\$ 238,215	\$ (1,963,559)	\$ 2,525,873
Liabilities and Shareholders Equity					
Current liabilities:					
Accounts payable and accrued expenses	\$ (3,579)	\$ 175,139	\$ 13,526	\$	\$ 185,086
Current portion of long-term debt		1,938	6		1,944
Total current liabilities	(3,579)	177,077	13,532		187,030
Long-term debt	893,000	5,079	21		898,100
Deferred income taxes	2,413	208,494	14,829	(13,275)	212,461
Other long-term liabilities	14,266	34,761			49,027
Shareholders equity	1,179,255	1,740,451	209,833	(1,950,284)	1,179,255
Total liabilities and shareholders equity	\$ 2,085,355	\$ 2,165,862	\$ 238,215	\$ (1,963,559)	\$ 2,525,873

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Supplemental Consolidating Statement of Income****Three Months Ended June 30, 2013**

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 471,138	\$ 76,086	\$ (20,878)	\$ 526,346
Cost of sales		374,912	62,744	(20,878)	416,778
Gross profit		96,226	13,342		109,568
Selling, general and administrative expense	10,216	43,963	6,321		60,500
Amortization	1,321	5,756	1,150		8,227
Other operating income, net		(517)	381		(136)
Operating (loss) income	(11,537)	47,024	5,490		40,977
Interest expense	12,085	154	3,521	(3,530)	12,230
Interest income		(3,530)	(322)	3,530	(322)
Other income, net	(2)	543	645		1,186
(Loss) income before income taxes	(23,620)	49,857	1,646		27,883
Income taxes (benefit)	(15,812)	24,611	519		9,318
Equity in net income of subsidiaries	26,373	1,127		(27,500)	
Net income	\$ 18,565	\$ 26,373	\$ 1,127	\$ (27,500)	\$ 18,565

Condensed Supplemental Consolidating Statement of Income**Three Months Ended June 30, 2012**

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 463,960	\$ 74,659	\$ (11,198)	\$ 527,421
Cost of sales		373,332	58,696	(11,198)	420,830
Gross profit		90,628	15,963		106,591
Selling, general and administrative expense	10,664	39,862	6,036		56,562

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Amortization	1,190	6,201	1,233	8,624
Other operating expense, net		(49)		(49)
Operating (loss) income	(11,854)	44,614	8,694	41,454
Interest expense	12,391	60	3,556	(3,555)
Interest income		(3,555)	(14)	3,555
Other (income) expense, net		2,346	(826)	1,520
(Loss) income before income taxes	(24,245)	45,763	5,978	27,496
Income taxes (benefit)	(9,225)	15,629	1,581	7,985
Equity in net income of subsidiaries	34,531	4,397		(38,928)
Net income	\$ 19,511	\$ 34,531	\$ 4,397	\$ (38,928)

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Supplemental Consolidating Statement of Income****Six Months Ended June 30, 2013**

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 957,072	\$ 147,433	\$ (38,049)	\$ 1,066,456
Cost of sales		759,288	121,477	(38,049)	842,716
Gross profit		197,784	25,956		223,740
Selling, general and administrative expense	24,617	83,151	12,607		120,375
Amortization	2,599	11,808	2,319		16,726
Other operating expense, net		419	863		1,282
Operating (loss) income	(27,216)	102,406	10,167		85,357
Interest expense	24,579	438	7,045	(7,054)	25,008
Interest income		(7,054)	(1,000)	7,054	(1,000)
Other (income) expense, net	(2)	(146)	260		112
(Loss) income before income taxes	(51,793)	109,168	3,862		61,237
Income taxes (benefit)	(29,204)	47,808	1,094		19,698
Equity in net income of subsidiaries	64,128	2,768		(66,896)	
Net income	\$ 41,539	\$ 64,128	\$ 2,768	\$ (66,896)	\$ 41,539

Condensed Supplemental Consolidating Statement of Income**Six Months Ended June 30, 2012**

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$	\$ 927,591	\$ 146,587	\$ (22,946)	\$ 1,051,232
Cost of sales		738,184	114,471	(22,946)	829,709
Gross profit		189,407	32,116		221,523
Selling, general and administrative expense	24,643	80,286	12,531		117,460

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Amortization	2,226	12,187	2,474	16,887
Other operating expense, net		411		411
Operating (loss) income	(26,869)	96,523	17,111	86,765
Interest expense	25,326	332	7,132	(7,126)
Interest income		(7,126)	(14)	7,126
Other (income) expense, net		1,535	380	1,915
(Loss) income before income taxes	(52,195)	101,782	9,613	59,200
Income taxes (benefit)	(19,861)	34,955	2,521	17,615
Equity in net income of subsidiaries	73,919	7,092		(81,011)
Net income	\$ 41,585	\$ 73,919	\$ 7,092	\$ (81,011)

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Supplemental Consolidating Statement of Comprehensive Income****Three Months Ended June 30, 2013**

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 18,565	\$ 26,373	\$ 1,127	\$ (27,500)	\$ 18,565
Other comprehensive income:					
Foreign currency translation adjustments		(4,828)	(6,781)		(11,609)
Pension and post-retirement reclassification adjustment, net of tax		349			349
Derivatives reclassification adjustment, net of tax	41				41
Other comprehensive income	41	(4,479)	(6,781)		(11,219)
Equity in other comprehensive income of subsidiaries	(11,260)	(6,781)		18,041	
Comprehensive income	\$ 7,346	\$ 15,113	\$ (5,654)	\$ (9,459)	\$ 7,346

Condensed Supplemental Consolidating Statement of Comprehensive Income**Three Months Ended June 30, 2012**

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 19,511	\$ 34,531	\$ 4,397	\$ (38,928)	\$ 19,511
Other comprehensive income (loss):					
Foreign currency translation adjustments		(4,081)	(5,190)		(9,271)
Pension and post-retirement reclassification adjustment, net of tax		282			282
Derivative reclassification adjustment, net of tax	41				41
Other comprehensive income (loss)	41	(3,799)	(5,190)		(8,948)
Equity in other comprehensive income of subsidiaries	(8,989)	(5,190)		14,179	

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subsidiaries

Comprehensive income	\$	10,563	\$	25,542	\$	(793)	\$	(24,749)	\$	10,563
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Table of Contents

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Supplemental Consolidating Statement of Comprehensive Income

Six Months Ended June 30, 2013

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 41,539	\$ 64,128	\$ 2,768	\$ (66,896)	\$ 41,539
Other comprehensive income (loss):					
Foreign currency translation adjustments		(8,115)	(11,352)		(19,467)
Pension and post-retirement reclassification adjustment, net of tax		759			