

TreeHouse Foods, Inc.  
Form 10-Q  
November 03, 2016

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

**(Mark One)**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended September 30, 2016.**

**or**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Transition Period from to**

**Commission File Number 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

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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 October 31, 2016: 56,730,620

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

(In thousands, except per share data)

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 47,227	\$ 34,919
Investments	10,117	8,388
Receivables, net	384,901	203,198
Inventories, net	1,040,978	584,115
Assets held for sale	2,674	
Prepaid expenses and other current assets	75,966	16,583
Total current assets	1,561,863	847,203
Property, plant, and equipment, net	1,364,672	541,528
Goodwill	2,774,764	1,649,794
Intangible assets, net	1,171,554	646,655
Other assets, net	50,379	17,616
Total assets	\$ 6,923,232	\$ 3,702,796
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 606,793	\$ 260,580
Current portion of long-term debt	58,099	14,893
Total current liabilities	664,892	275,473
Long-term debt	2,849,759	1,221,741
Deferred income taxes	416,079	279,108
Other long-term liabilities	205,257	71,615
Total liabilities	4,135,987	1,847,937
Commitments and contingencies (Note 19)		
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, 56,729 and 43,126 shares issued and outstanding, respectively	567	431

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Additional paid-in capital	2,067,569	1,207,167
Retained earnings	810,205	760,729
Accumulated other comprehensive loss	(91,096)	(113,468)
Total stockholders' equity	2,787,245	1,854,859
Total liabilities and stockholders' equity	\$ 6,923,232	\$ 3,702,796

See Notes to Condensed Consolidated Financial Statements.

**TREEHOUSE FOODS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Net sales	\$ 1,586,850	\$ 798,638	\$ 4,398,412	\$ 2,340,991
Cost of sales	1,301,317	639,941	3,622,510	1,878,486
Gross profit	285,533	158,697	775,902	462,505
Operating expenses:				
Selling and distribution	102,141	44,887	291,976	133,482
General and administrative	71,879	36,535	244,580	119,302
Amortization expense	28,638	14,893	80,952	45,772
Other operating expense, net	5,285	154	10,284	504
Total operating expenses	207,943	96,469	627,792	299,060
Operating income	77,590	62,228	148,110	163,445
Other expense (income):				
Interest expense	30,749	10,914	87,955	33,978
Interest income	(108)	(265)	(3,569)	(2,228)
(Gain) loss on foreign currency exchange	(1,075)	9,226	(5,948)	18,226
Other (income) expense, net	(4,584)	2,078	(331)	(394)
Total other expense	24,982	21,953	78,107	49,582
Income before income taxes	52,608	40,275	70,003	113,863
Income taxes	15,434	11,834	20,527	36,208
Net income	\$ 37,174	\$ 28,441	\$ 49,476	\$ 77,655
Net earnings per common share:				
Basic	\$ 0.65	\$ 0.66	\$ 0.89	\$ 1.81
Diluted	\$ 0.65	\$ 0.65	\$ 0.88	\$ 1.78
Weighted average common shares:				
Basic	56,804	43,168	55,350	43,004
Diluted	57,451	43,721	56,037	43,672

See Notes to Condensed Consolidated Financial Statements.



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

(In thousands)

	<b>Three Months Ended September 30, 2016</b>		<b>Nine Months Ended September 30, 2016</b>	
	<b>2015</b>		<b>2015</b>	
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Net income	\$ 37,174	\$ 28,441	\$ 49,476	\$ 77,655
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(7,285)	(20,216)	21,598	(40,533)
Pension and postretirement reclassification adjustment (1)	258	256	774	767
Other comprehensive (loss) income	(7,027)	(19,960)	22,372	(39,766)
Comprehensive income	\$ 30,147	\$ 8,481	\$ 71,848	\$ 37,889

(1) Net of tax of \$159 and \$158 for the three months ended September 30, 2016 and 2015, respectively, and \$475 and \$474 for the nine months ended September 30, 2016 and 2015, respectively.

See Notes to Condensed Consolidated Financial Statements.



## TREEHOUSE FOODS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 49,476	\$ 77,655
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	127,181	46,160
Amortization	80,952	45,772
Stock-based compensation	22,784	15,503
Excess tax benefits from stock-based compensation	(3,676)	(5,004)
Mark-to-market gain on derivative contracts	(3,860)	(378)
Mark-to-market (gain) loss on investments	(480)	421
Loss on disposition of assets	2,054	365
Deferred income taxes	(1,630)	239
(Gain) loss on foreign currency exchange	(5,948)	18,226
Other	(2,786)	(1,127)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Receivables	(16,827)	14,493
Inventories	(8,140)	(61,715)
Prepaid expenses and other assets	(31,203)	(5,150)
Accounts payable, accrued expenses and other liabilities	86,818	23,730
Net cash provided by operating activities	294,715	169,190
<b>Cash flows from investing activities:</b>		
Additions to property, plant, and equipment	(131,942)	(57,188)
Additions to intangible assets	(10,904)	(9,663)
Acquisitions, less cash acquired	(2,644,364)	
Proceeds from sale of fixed assets	1,474	278
Purchase of investments	(795)	(572)
Increase in restricted cash	(605)	
Other	4	
Net cash used in investing activities	(2,787,132)	(67,145)
<b>Cash flows from financing activities:</b>		
Borrowings under Revolving Credit Facility	239,300	131,100
Payments under Revolving Credit Facility	(313,300)	(257,100)
Proceeds from issuance of Term Loan A-2	1,025,000	
Proceeds from issuance of 2024 Notes	775,000	
Payments on capitalized lease obligations and other debt	(2,627)	(2,672)
Payment of deferred financing costs	(34,328)	
Payments on Term Loans	(25,937)	(7,250)

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Net proceeds from issuance of common stock	835,131	
Net (payments) receipts related to stock-based award activities	(1,053)	1,221
Excess tax benefits from stock-based compensation	3,676	5,004
Net cash provided by (used in) financing activities	2,500,862	(129,697)
Effect of exchange rate changes on cash and cash equivalents	3,863	(1,446)
Net increase (decrease) in cash and cash equivalents	12,308	(29,098)
Cash and cash equivalents, beginning of period	34,919	51,981
Cash and cash equivalents, end of period	\$ 47,227	\$ 22,883

See Notes to Condensed Consolidated Financial Statements.

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**TREEHOUSE FOODS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**As of and for the nine months ended September 30, 2016**

**(Unaudited)**

**1. BASIS OF PRESENTATION**

The unaudited Condensed Consolidated Financial Statements included herein have been prepared by TreeHouse Foods, Inc. and its consolidated subsidiaries (the Company, TreeHouse, 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, 2015. Results of operations for interim periods are not necessarily indicative of annual results.

On February 1, 2016, the Company acquired all of the outstanding common stock of Ralcorp Holdings, Inc., the Missouri corporation through which the private brands business of ConAgra Foods, Inc. ( Private Brands Business ) was operated. Ralcorp Holdings, Inc. was renamed TreeHouse Private Brands, Inc. during the first quarter of 2016. The results of operations of the Private Brands Business are included in our financial statements from the date of acquisition and are included in the North American Retail Grocery, Food Away From Home, and Industrial and Export segments, as applicable. The Private Brands Business is on a 4-4-5 fiscal calendar, and September 25, 2016 was the fiscal period end closest to the Company s fiscal quarter end. This difference did not have a significant impact on the results of operations of the Private Brands Business.

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, 2015.

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

In March 2016, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is currently assessing the impact that this standard will have upon adoption.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing

arrangements. The main difference between existing GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under existing GAAP. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The standard requires that entities apply the effects of these changes using a modified retrospective approach, which includes a number of optional practical expedients. The Company is currently assessing the impact that this standard will have upon adoption.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*, to simplify the accounting for adjustments made to provisional amounts. This ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This ASU is effective for fiscal periods beginning after December 15, 2015. The Company adopted the ASU during the first quarter of 2016. Adjustments to provisional amounts are disclosed in Note 4 on Acquisitions.

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**TREEHOUSE FOODS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*, which requires entities to measure inventory at the lower of cost and net realizable value (NRV). This ASU will not apply to inventory valued under the last-in-first-out method. Under current guidance, an entity is required to measure inventory at the lower of cost or market, with market defined as replacement cost, NRV, or NRV less a normal profit margin. The three market measurements added complexity and reduced comparability in the valuation of inventory. FASB issued this ASU as part of its simplification initiative to address these issues. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is currently assessing the impact that this standard will have upon adoption, which is not expected to be significant.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, providing additional guidance surrounding the disclosure of going concern uncertainties in the financial statements and implementing requirements for management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. The ASU is effective for fiscal years ending after December 15, 2016 and for interim periods thereafter. The Company does not anticipate the adoption of the ASU will result in additional disclosures, however, management will begin performing the periodic assessments required by the ASU on its effective date.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which introduced a new framework to be used when recognizing revenue in an attempt to reduce complexity and increase comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The standard requires that entities apply the effects of these changes to all prior years presented, upon adoption, using either the full retrospective method, which presents the impact of the change separately in each prior year presented, or the modified retrospective method, which includes the cumulative changes to all prior years presented in beginning retained earnings in the year of initial adoption. The Company has not yet determined which of the two adoption methods to elect. The FASB also issued ASU No. 2016-10, *Identifying Performance Obligations and Licensing*, and ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*, in April 2016 and May 2016, respectively, which amend the guidance in ASU 2014-09 and have the same effective date as the original standard. The Company is currently assessing the impact that these standards will have upon adoption.

**TREEHOUSE FOODS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. RESTRUCTURING**

*Plant Closing Costs* The Company continually analyzes its plant network to align operations with the current and future needs of its customers. Facility closure decisions are made when the Company identifies opportunities to lower production costs or eliminate excess manufacturing capacity while maintaining a competitive cost structure, service levels, and product quality. Expenses associated with facility closures are primarily aggregated in the Other operating expense, net line of the Condensed Consolidated Statements of Income, with the exception of asset-related costs, which are recorded in Cost of sales. The key information regarding the Company's announced facility closures is outlined in the table below.

Facility Location	Date of Closure Announcement	End of Production	Full Facility Closure	Primary Products Produced	Primary Segment(s) Affected	Total Costs to Close (In millions)
City of Industry, California	November 18, 2015	First quarter of 2016	Third quarter of 2016	Liquid non-dairy creamer and refrigerated salad dressings	Food Away From Home	\$ 6.9
Ayer, Massachusetts	April 5, 2016	First quarter of 2017	Third quarter of 2017	Spoonable dressings	North American Retail Grocery, Food Away From Home	\$ 8.5
Azusa, California	May 24, 2016	Second quarter of 2017	Second quarter of 2017	Bars and snack products	North American Retail Grocery	\$ 15.2
Ripon, Wisconsin	May 24, 2016	Fourth quarter of 2016	Fourth quarter of 2016	Sugar wafer cookies	North American Retail Grocery	\$ 2.0

Total expected costs to close the City of Industry, California and Ripon Wisconsin facilities have been reduced by approximately \$5.0 million and \$0.1 million, respectively, since the initial announcements while total expected costs to close the Ayer, Massachusetts and Azusa, California facilities have been increased by approximately \$2.0 million and \$0.3 million, respectively.

Below is a summary of the plant closing costs:

Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016	Cumulative Costs To Date	Total Expected Costs

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(In thousands)

Asset-related	\$	1,652	\$	3,158	\$	6,178	\$	8,585
Employee-related		2,183		4,146		5,308		8,948
Other closure costs		2,055		3,120		3,149		14,974
Total	\$	5,890	\$	10,424	\$	14,635	\$	32,507

Liabilities recorded as of September 30, 2016 associated with these plant closings relate to severance and the partial withdrawal from a multiemployer pension plan. The severance liability is included in the Accounts payable and accrued expenses line of the Condensed Consolidated Balance Sheets while the multiemployer pension plan withdrawal liability is included in the Other long-term liabilities line of the Condensed Consolidated Balance Sheets. The table below presents a reconciliation of the liabilities as of September 30, 2016:

		Severance		Multiemployer Pension Plan Withdrawal (In thousands)		Total Liabilities
Balance as of December 31, 2015	\$	395	\$	767	\$	1,162
Expense		3,809				3,809
Payments		(1,035)				(1,035)
Balance as of September 30, 2016	\$	3,169	\$	767	\$	3,936

**TREEHOUSE FOODS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. ACQUISITIONS**

*Private Brands Business*

On February 1, 2016, the Company acquired the Private Brands Business, which is primarily engaged in manufacturing, distributing, and marketing private label products to retail grocery, food away from home, and industrial and export customers. The business's primary product categories include snacks, retail bakery, pasta, cereal, bars, and condiments. The purchase price, after considering working capital adjustments, was approximately \$2,644.4 million, net of acquired cash. The acquisition was funded by \$835.1 million in net proceeds from a public sale of the Company's common stock, \$760.7 million in net proceeds from a private issuance of senior unsecured notes (2024 Notes), and a new \$1,025.0 million term loan (Term Loan A-2), with the remaining balance funded by borrowings from the Company's \$900 million revolving credit facility (Revolving Credit Facility). The acquisition resulted in a broader portfolio of products and further diversified the Company's product categories.

The Private Brands Business acquisition is accounted for under the acquisition method of accounting and the results of operations are included in our financial statements from the date of acquisition in the North American Retail Grocery, Food Away From Home, and Industrial and Export segments. Included in the Company's Condensed Consolidated Statements of Income for the nine months ended September 30, 2016 are the Private Brands Business's net sales of approximately \$2,074.6 million and income before income taxes of \$55.6 million. Integration costs of \$7.5 million were included in determining income before income taxes.

We have made a preliminary allocation to net tangible and intangible assets acquired and liabilities assumed as follows:

	<b>(In thousands)</b>
Cash	\$ 43,358
Receivables	161,190
Inventory	444,860
Property, plant, and equipment	808,856
Customer relationships	510,900
Trade names	33,000
Software	19,576
Formulas	23,200
Other assets	53,545
Goodwill	1,118,102
Assets acquired	3,216,587
Deferred taxes	(135,697)
Assumed current liabilities	(243,287)
Assumed long-term liabilities	(149,881)
Total purchase price	\$ 2,687,722



The Company allocated \$496.1 million to customer relationships in the North American Retail Grocery segment, which have a preliminary estimated life of 13 years, and \$14.8 million to customer relationships in the Food Away From Home segment, which have a preliminary estimated life of 10 years. The Company allocated \$33.0 million to trade names, which have a preliminary estimated life of 10 years. The Company allocated \$23.2 million to formulas, which have a preliminary estimated life of 5 years. The Company allocated \$19.6 million to capitalized software with estimated lives of 1 to 5 years, depending on expected use. The aforementioned intangibles will be amortized on a straight line basis. Indemnification assets related to taxes of approximately \$23.4 million were also recorded. The Company increased the cost of acquired inventories by approximately \$8.4 million, and expensed the amount as a component of cost of sales. The Company has preliminarily allocated \$1,044.9 million and \$73.2 million of goodwill to the North American Retail Grocery and Food Away From Home segments, respectively. Goodwill arises principally as a result of expansion opportunities and synergies across both new and legacy product categories. None of the goodwill resulting from this acquisition is tax deductible. The Company incurred approximately \$35.2 million in acquisition costs. These costs are included in the General and administrative expense line of the Condensed Consolidated Statements of Income. The purchase price allocation in the table above is preliminary and subject to the finalization of the Company's valuation analysis, including adjustments to taxes.

The Company recorded purchase price adjustments related to taxes and working capital in the first nine months of 2016, resulting in a decrease to goodwill of approximately \$5.8 million. The working capital adjustment was finalized on July 25, 2016, resulting in a payment of \$4.2 million to ConAgra Foods, Inc. that is reflected as a purchase price adjustment. As a result of these adjustments, approximately \$0.2 million was expensed to Cost of sales in the first nine months of 2016. The remaining adjustments did not impact the Condensed Consolidated Statements of Income.

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

The following unaudited pro forma information shows the results of operations for the Company as if its acquisition of the Private Brands Business had been completed as of January 1, 2015. Adjustments have been made for the pro forma effects of depreciation and amortization of tangible and intangible assets recognized as part of the business combination, the issuance of common stock, interest expense related to the financing of the business combination, and related income taxes. Excluded from the 2016 pro forma results are \$35.2 million of costs incurred by the Company in connection with the acquisition. The 2015 pro forma results include \$1.3 billion in asset impairment charges incurred by the seller. The pro forma results may not necessarily reflect actual results of operations that would have been achieved, nor are they necessarily indicative of future results of operations.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>			
	<b>September 30,</b>		<b>September</b>			
	<b>2015</b>		<b>30,</b>			
			<b>2016</b>			
			<b>2015</b>			
	<b>(In thousands, except per share data)</b>					
Pro forma net sales	\$	1,657,997	\$	4,722,375	\$	5,007,031
Pro forma net income (loss)	\$	25,898	\$	71,191	\$	(718,415)
Pro forma basic earnings (loss) per common share	\$	0.46	\$	1.26	\$	(12.77)
Pro forma diluted earnings (loss) per common share	\$	0.45	\$	1.24	\$	(12.77)

**5. INVESTMENTS**

	<b>September 30, 2016</b>		<b>December 31, 2015</b>	
	<b>(In thousands)</b>			
U.S. equity	\$	7,353	\$	5,283
Non-U.S. equity		1,721		1,574
Fixed income		1,043		1,531
Total investments	\$	10,117	\$	8,388

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 or Interest expense 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 include U.S. equity, non-U.S. equity, and fixed income securities that are classified as short-term investments 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 September 30, 2016 and December 31, 2015, \$47.2 million and \$24.4 million, respectively, represents cash and equivalents held in foreign jurisdictions, in local currencies, that are convertible into other currencies. The cash and equivalents held in foreign jurisdictions are expected to be used for general corporate purposes in foreign jurisdictions, including capital projects and acquisitions. The Prepaid expenses and other current assets line on the Condensed Consolidated Balance Sheets also includes restricted cash of \$2.9 million as of September 30, 2016, which relates to cash held to meet certain insurance requirements.

For the nine months ended September 30, 2016, we recognized unrealized losses totaling \$0.4 million that are included in the Interest expense line of the Condensed Consolidated Statements of Income, while unrealized losses for the three months ended September 30, 2016 were insignificant. For the three and nine months ended September 30, 2016, we recognized unrealized gains totaling \$0.4 million and \$0.9 million, respectively, that are included in the Interest income line of the Condensed Consolidated Statements of Income. Additionally, realized gains for the three and nine months ended September 30, 2016 were \$0.1 million and \$0.2 million, respectively, which 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.

**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. INVENTORIES**

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>(In thousands)</b>	
Raw materials and supplies	\$ 438,535	\$ 274,007
Finished goods	622,790	331,535
LIFO reserve	(20,347)	(21,427)
Total inventories	\$ 1,040,978	\$ 584,115

Inventory is generally accounted for under the first-in, first-out ( FIFO ) method, but a portion is accounted for under the last-in, first-out ( LIFO ) method or the weighted average costing approach. Approximately \$105.3 million and \$88.1 million of our inventory was accounted for under the LIFO method of accounting at September 30, 2016 and December 31, 2015, respectively. Approximately \$114.5 million and \$128.9 million of our inventory was accounted for using the weighted average costing approach at September 30, 2016 and December 31, 2015, respectively.

**7. PROPERTY, PLANT, AND EQUIPMENT**

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>(In thousands)</b>	
Land	\$ 70,878	\$ 25,954
Buildings and improvements	459,564	226,134
Machinery and equipment	1,275,754	681,711
Construction in progress	96,655	24,493
Total	1,902,851	958,292
Less accumulated depreciation	(538,179)	(416,764)
Property, plant, and equipment, net	\$ 1,364,672	\$ 541,528

Depreciation expense was \$46.7 million and \$15.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$127.2 million and \$46.2 million for the nine months ended September 30, 2016 and 2015, respectively.



**TREEHOUSE FOODS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. GOODWILL AND INTANGIBLE ASSETS**

Changes in the carrying amount of goodwill for the nine months ended September 30, 2016 are as follows:

	<b>North American Retail Grocery</b>	<b>Food Away From Home</b>	<b>Industrial and Export</b>	<b>Total</b>
	<b>(In thousands)</b>			
Balance at December 31, 2015	\$ 1,423,441	\$ 92,267	\$ 134,086	\$ 1,649,794
Acquisitions	1,050,383	73,541		1,123,924
Purchase price adjustments	(5,441)	(381)		(5,822)
Foreign currency exchange adjustments	6,257	611		6,868
Balance at September 30, 2016	\$ 2,474,640	\$ 166,038	\$ 134,086	\$ 2,774,764

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

The carrying amounts of our intangible assets with indefinite lives, other than goodwill, as of September 30, 2016 and December 31, 2015 are as follows:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>(In thousands)</b>	
Trademarks	\$ 26,296	\$ 25,229
Total indefinite lived intangibles	\$ 26,296	\$ 25,229

The increase in the indefinite lived intangibles balance is due to foreign currency translation.

The gross carrying amounts and accumulated amortization of intangible assets, with finite lives, as of September 30, 2016 and December 31, 2015 are as follows:

	<b>September 30, 2016</b>			<b>December 31, 2015</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization (In thousands)</b>	<b>Net Carrying Amount</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization (In thousands)</b>	<b>Net Carrying Amount</b>

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Intangible assets with finite lives:						
Customer-related	\$ 1,287,320	\$ (272,759)	\$ 1,014,561	\$ 769,419	\$ (208,962)	\$ 560,457
Contractual agreements						
	2,972	(2,887)	85	2,964	(2,831)	133
Trademarks	65,336	(14,889)	50,447	32,240	(11,091)	21,149
Formulas/recipes	33,754	(11,525)	22,229	10,471	(7,824)	2,647
Computer software	111,094	(53,158)	57,936	78,039	(40,999)	37,040
Total finite lived intangibles						
	\$ 1,500,476	\$ (355,218)	\$ 1,145,258	\$ 893,133	\$ (271,707)	\$ 621,426

Total intangible assets, excluding goodwill, as of September 30, 2016 and December 31, 2015 were \$1,171.6 million and \$646.7 million, respectively. Amortization expense on intangible assets for the three months ended September 30, 2016 and 2015 was \$28.6 million and \$14.9 million, respectively, and \$81.0 million and \$45.8 million for the nine months ended September 30, 2016 and 2015, respectively. Estimated amortization expense on intangible assets for 2016 and the next four years is as follows:

	<b>(In thousands)</b>
2016	\$ 109,918
2017	\$ 112,818
2018	\$ 106,314
2019	\$ 104,562
2020	\$ 102,660

**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>(In thousands)</b>	
Accounts payable	\$ 473,009	\$ 202,065
Payroll and benefits	68,853	27,467
Interest	7,448	6,241
Taxes	22,694	1,499
Health insurance, workers compensation, and other insurance costs	16,993	9,331
Marketing expenses	11,965	7,435
Other accrued liabilities	5,831	6,542
Total	\$ 606,793	\$ 260,580

**10. INCOME TAXES**

Income taxes were recorded at an effective rate of 29.3% for the three and nine months ended September 30, 2016 compared to 29.4% and 31.8% for the three and nine months ended September 30, 2015, respectively. During the quarter, the Company's effective tax rate was favorably impacted by the reversal of \$2.2 million in tax reserves assumed in prior acquisitions. The Company also recognized \$2.2 million of non-operating expense for the write-off of the related indemnification assets, which is included in the Other (income) expense, net line of the Condensed Consolidated Statements of Income.

Our effective tax rate may change from period to period based on recurring and non-recurring factors including the jurisdictional mix of earnings, enacted tax legislation, state income taxes, settlement of tax audits, and the expiration of the statute of limitations in relation to unrecognized tax benefits.

The Company's effective tax rate differs from the U.S. federal statutory tax rate primarily due to state tax expense and the benefits associated with the federal domestic production activities deduction and an intercompany financing structure entered into in conjunction with the E.D. Smith Foods, Ltd. (E.D. Smith) acquisition in 2007.

The Internal Revenue Service (IRS) completed the examination of Flagstone Foods, Inc.'s 2013 tax year during the second quarter of 2016, with no proposed adjustments to the Company's tax liability. The Canadian Revenue Agency (CRA) is currently examining the 2008 through 2013 tax years of E.D. Smith. The CRA examination is expected to be completed in 2016 or 2017. The Company has examinations in process with various state taxing authorities, which are expected to be complete in 2017.

Management estimates that it is reasonably possible that the total amount of unrecognized tax benefits could decrease by as much as \$6.0 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. Less than \$3.6 million of the \$6.0 million would affect net income when settled.





**TREEHOUSE FOODS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. LONG-TERM DEBT**

	September 30, 2016	December 31, 2015
	(In thousands)	
Revolving Credit Facility	\$ 279,000	\$ 353,000
Term Loan A	289,875	295,500
Term Loan A-1	182,500	190,000
Term Loan A-2	1,012,188	
2022 Notes	400,000	400,000
2024 Notes	775,000	
Tax increment financing and other debt	4,312	6,002
Total outstanding debt	2,942,875	1,244,502
Deferred financing costs	(35,017)	(7,868)
Less current portion	(58,099)	(14,893)
Total long-term debt	\$ 2,849,759	\$ 1,221,741

On February 1, 2016, coincident with the closing of the acquisition of the Private Brands Business, the Company entered into the Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement amended the Company's prior credit agreement, dated as of May 6, 2014 (as amended from time to time prior to February 1, 2016, the Prior Credit Agreement).

The Amended and Restated Credit Agreement (1) amended the maturity dates of the Revolving Credit Facility, Term Loan A, and Term Loan A-1 so that they are coterminous and mature on February 1, 2021, (2) provided for the issuance of Term Loan A-2, (3) is now a secured facility until, among other conditions, the Company reaches a leverage ratio of 3.5 and has no other pari-passu secured debt outstanding, and (4) increased credit spreads. The proceeds from Term Loan A-2 were used to fund a portion of the purchase price of the Private Brands Business. The Amended and Restated Credit Agreement contains substantially the same covenants as the Prior Credit Agreement with adjustments to reflect the incurrence of Term Loan A-2.

In connection with the Amended and Restated Credit Agreement, \$20.3 million in fees will be amortized ratably through February 1, 2021. Fees associated with Term Loan A, Term Loan A-1, and Term Loan A-2 (the Term Loans) are presented as a direct deduction from outstanding debt, while fees associated with the Revolving Credit Facility are presented as an asset. Beginning February 1, 2016, unamortized fees associated with the Prior Credit Agreement will be amortized ratably through February 1, 2021.