TreeHouse Foods, Inc.
Form 10-Q
May 08, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934**
For the Quarterly Period Ended March 31, 2012.

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	**20-2311383**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
2021 Spring Road, Suite 600	
Oak Brook, IL	**60523**
(Address of principal executive offices)	(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 x 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 x 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	x	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting Company	¨

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

Yes ¨ No x

Number of shares of Common Stock, $0.01 par value, outstanding as of April 30, 2012: 35,951,836.

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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)

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 67,324	$ 3,279
Receivables, net	120,410	115,168
Inventories, net	338,725	329,374
Deferred income taxes	3,520	3,854
Prepaid expenses and other current assets	14,217	12,638
Assets held for sale	4,081	4,081
Total current assets	548,277	468,394
Property, plant and equipment, net	408,217	406,558
Goodwill	1,070,943	1,068,419
Intangible assets, net	432,895	437,860
Other assets, net	22,671	23,298
Total assets	$ 2,483,003	$ 2,404,529
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 185,756	$ 169,525
Current portion of long-term debt	1,960	1,954
Total current liabilities	187,716	171,479
Long-term debt	931,301	902,929
Deferred income taxes	203,924	202,258
Other long-term liabilities	54,207	54,346
Total liabilities	1,377,148	1,331,012
Commitments and contingencies (Note 17)		
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, 35,951 and 35,921 shares issued and outstanding, respectively	359	359
Additional paid-in capital	717,392	714,932
Retained earnings	402,660	380,588
Accumulated other comprehensive loss	(14,556)	(22,362)
Total stockholders equity	1,105,855	1,073,517

Total liabilities and stockholders equity	$	2,483,003	$	2,404,529

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited)	
Net sales	$ 523,811	$ 493,513
Cost of sales	408,879	372,587
Gross profit	114,932	120,926
Operating expenses:		
Selling and distribution	34,294	36,260
General and administrative	26,604	29,243
Other operating expense, net	460	2,650
Amortization expense	8,263	8,049
Total operating expenses	69,621	76,202
Operating income	45,311	44,724
Other expense (income):		
Interest expense	13,212	13,851
Loss on foreign currency exchange	856	1,430
Other income, net	(461)	(492)
Total other expense	13,607	14,789
Income before income taxes	31,704	29,935
Income taxes	9,630	10,127
Net income	$ 22,074	$ 19,808
Net earnings per common share:		
Basic	$ .61	$ .56
Diluted	$ .60	$ .54
Weighted average common shares:		
Basic	36,019	35,534
Diluted	37,094	36,785

See Notes to Condensed Consolidated Financial Statements

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TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited)	
Net income	$ 22,074	$ 19,808
Other comprehensive income:		
Foreign currency translation adjustments	7,487	8,803
Pension and post-retirement reclassification adjustment, net of tax of $177 and $106, respectively	279	169
Derivative reclassification adjustment, net of tax of $25, respectively	40	40
Other comprehensive income	7,806	9,012
Comprehensive income	$ 29,880	$ 28,820

See Notes to Condensed Consolidated Financial Statements

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TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 22,074	$ 19,808
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,458	11,787
Amortization	8,263	8,049
(Gain) loss on foreign currency exchange	(112)	800
Mark to market adjustment on derivative contracts	(517)	(575)
Excess tax benefits from stock-based compensation	(302)	(422)
Stock-based compensation	2,685	4,774
Loss on disposition of assets	778	
Write-down of tangible assets		2,352
Deferred income taxes	1,610	463
Other	44	31
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(4,725)	(3,782)
Inventories	(8,307)	(10,693)
Prepaid expenses and other assets	(18)	1,748
Accounts payable, accrued expenses and other liabilities	18,303	(1,592)
Net cash provided by operating activities	52,234	32,748
Cash flows from investing activities:		
Additions to property, plant and equipment	(15,566)	(10,578)
Additions to other intangible assets	(2,507)	(4,150)
Acquisition of business, net of cash acquired		1,401
Proceeds from sale of fixed assets	34	33
Net cash used in investing activities	(18,039)	(13,294)
Cash flows from financing activities:		
Borrowings under revolving credit facility	104,200	80,600
Payments under revolving credit facility	(75,300)	(105,000)
Payments on capitalized lease obligations	(407)	(196)
Net payments related to stock-based award activities	(655)	(18)
Excess tax benefits from stock-based compensation	302	422
Net cash provided by (used in) financing activities	28,140	(24,192)
Effect of exchange rate changes on cash and cash equivalents	1,710	790
Net increase (decrease) in cash and cash equivalents	64,045	(3,948)
Cash and cash equivalents, beginning of period	3,279	6,323
Cash and cash equivalents, end of period	$ 67,324	$ 2,375

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 three months ended March 31, 2012

(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, 2011. Results of operations for interim periods are not necessarily indicative of annual results.

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, 2011.

2. Recent Accounting Pronouncements

On June 16, 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, *Presentation of Comprehensive Income* which revises the manner in which entities present comprehensive income in their financial statements. This ASU removes the current presentation guidance and requires comprehensive income to be presented either in a single continuous statement of comprehensive income or two separate but consecutive statements. This guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. ASU 2011-05 does not change current accounting and adoption of this ASU did not have a significant impact on the Company s financial statements. The Company adopted this guidance using the two separate but consecutive statements approach.

On May 12, 2011, the FASB issued ASU 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU provides converged guidance on how (not when) to measure fair value. The ASU provides expanded disclosure requirements and other amendments, including those that eliminate unnecessary wording differences between U.S. GAAP and International Financial Reporting Standards (IFRSs). This ASU is effective for interim and annual periods beginning after December 15, 2011 and adoption of this ASU did not have a significant impact on the Company s disclosures or fair value measurements as presented in Note 19.

3. Facility Closings

As of December 31, 2011, the Company closed its pickle plant in Springfield, Missouri. Production ceased in August 2011 and has been transferred to other pickle facilities. Production at the Springfield facility was primarily related to the Food Away From Home segment. For the three months ended March 31, 2012, the Company recorded closure costs of approximately $0.2 million primarily to move equipment and for the three months ended March 31, 2011, costs of $2.4 million that consisted of a fixed asset impairment charge of $2.3 million and $0.1 million for severance, respectively. These costs are included in Other operating expense, net line in our Condensed Consolidated Statements of Income.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Acquisitions

On March 20, 2012, the Company announced it had entered into a definitive agreement to acquire substantially all of the assets of Naturally Fresh, Inc. (Naturally Fresh), a privately owned Atlanta, Georgia based manufacturer of refrigerated dressings, sauces, marinades, dips and specialty items sold within each of our segments. Naturally Fresh has annual revenues of approximately $80 million. On April 13, 2012, the Company completed the acquisition and paid approximately $25 million for the business, subject to an adjustment for working capital. The acquisition was financed through borrowings under the Company s existing $750 million credit facility. The acquisition will expand the Company s refrigerated manufacturing and packaging capabilities, broaden its distribution footprint and further develop 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 foods plants will allow the Company to more efficiently service customers from coast to coast.

5. Inventories

	March 31, 2012	December 31, 2011
	(In thousands)	
Raw materials and supplies	$ 115,618	$ 115,719
Finished goods	243,173	233,408
LIFO reserve	(20,066)	(19,753)
Total	$ 338,725	$ 329,374

Approximately $62.8 million and $82.0 million of our inventory was accounted for under the LIFO method of accounting at March 31, 2012 and December 31, 2011, respectively.

6. Property, Plant and Equipment

	March 31, 2012	December 31, 2011
	(In thousands)	
Land	$ 20,409	$ 19,256
Buildings and improvements	166,043	158,370
Machinery and equipment	420,253	417,156
Construction in progress	42,914	42,683
Total	649,619	637,465
Less accumulated depreciation	(241,402)	(230,907)
Property, plant and equipment, net	$ 408,217	$ 406,558

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the three months ended March 31, 2012 are as follows:

	North American Retail Grocery	Food Away From Home	Industrial and Export	Total
		(In thousands)		
Balance at December 31, 2011	$ 842,801	$ 92,036	$ 133,582	$ 1,068,419
Currency exchange adjustment	2,207	317		2,524
Balance at March 31, 2012	$ 845,008	$ 92,353	$ 133,582	$ 1,070,943

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 March 31, 2012 and December 31, 2011 are as follows:

	March 31, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(In thousands)			
Intangible assets with indefinite lives:						
Trademarks	$ 32,750	$	$ 32,750	$ 32,155	$	$ 32,155
Intangible assets with finite lives:						
Customer-related	446,080	(88,879)	357,201	444,540	(82,152)	362,388
Non-compete agreement	1,000	(1,000)		1,000	(1,000)	
Trademarks	20,010	(4,767)	15,243	20,010	(4,555)	15,455
Formulas/recipes	6,828	(3,664)	3,164	6,799	(3,302)	3,497
Computer software	37,131	(12,594)	24,537	35,721	(11,356)	24,365
Total	$ 543,799	$ (110,904)	$ 432,895	$ 540,225	$ (102,365)	$ 437,860

Amortization expense on intangible assets for the three months ended March 31, 2012 and 2011 was $8.3 million and $8.0 million, respectively. Estimated amortization expense on intangible assets for 2012 and the next four years is as follows:

	(In thousands)
2012	$ 32,683
2013	$ 31,650
2014	$ 31,244
2015	$ 30,283
2016	$ 30,117

8. Accounts Payable and Accrued Expenses

	March 31, 2012	December 31, 2011
	(In thousands)	
Accounts payable	$ 121,757	$ 109,178
Payroll and benefits	25,559	17,079
Interest and taxes	15,472	20,659
Health insurance, workers compensation and other insurance costs	5,797	5,584
Marketing expenses	6,125	7,148
Other accrued liabilities	11,046	9,877
Total	$ 185,756	$ 169,525

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Income Taxes

Income tax expense was recorded at an effective rate of 30.4% and 33.8% for the three months ended March 31, 2012 and 2011, 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) Canadian acquisition. The decrease in the effective tax rate for the three months ended March 31, 2012 as compared to 2011 is attributable to the tax impact of the repayment of certain intercompany debt and a decrease in the Canadian statutory tax rate.

As of March 31, 2012, the Company does not believe that its gross recorded unrecognized tax benefits will materially change within the next 12 months.

During the fourth quarter of 2011 the IRS initiated an examination of S.T. Specialty Foods, Inc. s (S.T. Specialty Foods) pre-acquisition tax year ended October 28, 2010. The outcome of the examination is not expected to have a material effect of the Company s financial position, results of operations or cash flows. The Company has various state tax examinations in process, which are expected to be completed in 2012 or 2013. The outcome of the various state tax examinations is not expected to have a material effect on the Company s financial position, results of operations, or cash flows.

10. Long-Term Debt

	March 31, 2012	December 31, 2011
	(In thousands)	
Revolving credit facility	$ 424,700	$ 395,800
High yield notes	400,000	400,000
Senior notes	100,000	100,000
Tax increment financing and other	8,561	9,083
Total debt outstanding	933,261	904,883
Less current portion	(1,960)	(1,954)
Total long-term debt	$ 931,301	$ 902,929

Revolving Credit Facility The Company is party to an unsecured revolving credit facility with an aggregate commitment of $750 million, of which $316.1 million was available as of March 31, 2012. The revolving credit facility matures September 23, 2016. In addition, as of March 31, 2012, there were $9.2 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 March 31, 2012. The Company s average interest rate on debt outstanding under our revolving credit facility for the three months ended March 31, 2012 was 1.73%.

On January 10, 2012, the Company repaid its cross border intercompany loans with its Canadian subsidiary, E.D. Smith. The repayment totaled $67.7 million and included both principal and interest. Payment was financed with borrowings under our revolving credit facility. The loans were fully repaid and canceled at the time of payment. The cash will be held by E.D. Smith in short term investments and we expect to use the cash for general corporate purposes in Canada, including capital projects and acquisitions. The cash relates to foreign earnings that, if repatriated, would result in a tax liability.

High Yield Notes The Company s 7.75% high yield notes in aggregate principal amount of $400 million are due March 1, 2018 (the Notes). The Notes are guaranteed by the Company s 100 percent owned subsidiary Bay Valley Foods, LLC and its 100 percent owned subsidiaries EDS Holdings, LLC; Sturm Foods, Inc.; and S.T. Specialty Foods and certain other of the Company s subsidiaries that 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 Notes provides, among other things, that the Notes will be senior unsecured obligations of the Company. The Indenture contains various restrictive covenants of which the Company is in compliance as of March 31, 2012.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 among the Company and a group of purchasers. The Note Purchase Agreement contains covenants that will 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 March 31, 2012.

Tax Increment Financing The Company owes $2.3 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.

11. 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 stock-based compensation awards on the weighted average number of shares outstanding used in calculating diluted earnings per share:

	Three Months Ended March 31, 2012	2011
	(In thousands)	
Weighted average common shares outstanding	36,019	35,534
Assumed exercise/vesting of equity awards (1)	1,075	1,251
Weighted average diluted common shares outstanding	37,094	36,785

(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 110 thousand and 131 thousand for the three months ended March 31, 2012 and March 31, 2011, respectively.

12. Stock-Based Compensation

Income before income taxes for the three month periods ended March 31, 2012 and 2011 includes share-based compensation expense of $2.7 million and $4.8 million, respectively. The tax benefit recognized related to the compensation cost of these share-based awards was approximately $0.9 million and $1.8 million for the three month periods ended March 31, 2012 and 2011, respectively.

The following table summarizes stock option activity during the three months ended March 31, 2012. Stock options are granted under our long-term incentive plan, and 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	Director Options	Weighted Average	Weighted Average	Aggregate Intrinsic

			Exercise Price	Remaining Contractual Term (yrs.)	Value
	(In thousands)				(In thousands)
Outstanding, December 31, 2011	2,243	95	$ 29.76	4.8	$ 83,292
Granted					
Forfeited	(2)		$ 25.72		
Exercised	(7)		$ 25.97		
Outstanding, March 31, 2012	2,234	95	$ 29.77	4.6	$ 69,219
Vested/expected to vest, at March 31, 2012	2,229	95	$ 29.72	4.5	$ 69,184
Exercisable, March 31, 2012	2,037	95	$ 27.80	4.2	$ 67,579

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Compensation costs related to unvested options totaled $2.7 million at March 31, 2012 and will be recognized over the remaining vesting period of the grants, which averages 1.9 years. The Company uses the Black-Scholes option pricing model to value its stock option awards. No stock options were issued during the three months ended March 31, 2012. The aggregate intrinsic value of stock options exercised during the three months ended March 31, 2012 was approximately $0.2 million. The tax benefit recognized from stock option exercises was $0.1 million and $0.3 million for the three months ended March 31, 2012 and 2011, respectively.

In addition to stock options, the Company also grants restricted stock, restricted stock units and performance unit awards. These awards are granted under our long-term incentive plan. Employee restricted stock and restricted stock unit awards generally vest based on the passage of time. These awards generally vest one-third on each anniversary of the grant date. Director restricted stock units vest, generally, on the anniversary of the thirteenth month of the award. Certain directors have deferred receipt of their awards until their departure from the Board of Directors. The following table summarizes the restricted stock and restricted stock unit activity during the three months ended March 31, 2012:

	Employee Restricted Stock (In thousands)	Weighted Average Grant Date Fair Value	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, 2011	15	$ 26.35	368	$ 44.66	71	$ 35.51
Granted			2	$ 57.48		
Vested	(14)	$ 26.35	(21)	$ 44.63		
Forfeited	(1)	$ 26.35	(9)	$ 47.52		
Outstanding, at March 31, 2012			340	$ 44.64	71	$ 35.51

Future compensation costs related to restricted stock and restricted stock units are approximately $8.9 million as of March 31, 2012, and will be recognized on a weighted average basis, over the next 1.7 years. The grant date fair value of the awards granted in 2012 is equal to the Company s closing stock price on the grant date. The restricted stock and restricted stock units vested during the three months ended March 31, 2012 and 2011 had a fair value of $2.0 million and $2.4 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. The following table summarizes the performance unit activity during the three months ended March 31, 2012:

	Performance Units (In thousands)	Weighted Average Grant Date Fair Value
Unvested, at December 31, 2011	130	$ 42.11
Granted		
Vested		
Forfeited	(3)	$ 45.57

Unvested, at March 31, 2012	127	$	42.01

Future compensation costs related to the performance units are estimated to be approximately $2.0 million as of March 31, 2012, and is expected to be recognized over the next 1.7 years. The grant date fair value of the awards is equal to the Company s closing stock price on the date of grant.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. 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	Derivative Financial Instrument	Accumulated Other Comprehensive Loss
		(In thousands)		
Balance at December 31, 2011	$ (10,268)	$ (11,825)	$ (269)	$ (22,362)
Other comprehensive income	7,487	279	40	7,806
Balance at March 31, 2012	$ (2,781)	$ (11,546)	$ (229)	$ (14,556)

(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.

14. 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 March 31, 2012	2011
	(In thousands)	
Service cost	$ 633	$ 560
Interest cost	591	560
Expected return on plan assets	(581)	(592)
Amortization of unrecognized net loss	309	144
Amortization of prior service costs	151	151
Net periodic pension cost	$ 1,103	$ 823

The Company contributed $1.5 million to the pension plans in the first three months of 2012 and expects to contribute approximately $4.2 million in 2012.

Components of net periodic postretirement expenses are as follows:

	Three Months Ended March 31, 2012	2011
	(In thousands)	
Service cost	$ 8	$ 9
Interest cost	39	31
Amortization of unrecognized net loss (gain)	14	(2)
Amortization of prior service credit	(18)	(18)
Net periodic postretirement cost	$ 43	$ 20

The Company expects to contribute approximately $0.2 million to the postretirement health plans during 2012.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Other Operating Expense, Net

The Company incurred Other operating expense, net of $0.5 million and $2.7 million, for the three months ended March 31, 2012 and 2011, respectively, which consisted of the following:

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Facility closing costs	$ 427	$ 2,697
Other	33	(47)
Total other operating expense, net	$ 460	$ 2,650

16. Supplemental Cash Flow Information

	Three Months Ended, March 31,	
	2012	2011
	(In thousands)	
Interest paid	$ 18,209	$ 22,151
Income taxes paid	$ 5,614	$ 6,010
Accrued purchase of property and equipment	$ 2,821	$ 2,194
Accrued other intangible assets	$ 1,293	$ 1,400

Non-cash financing activities for the three months ended March 31, 2012 and 2011 include the settlement of 35,347 shares and 44,949 shares, respectively, of restricted stock and restricted stock units, where shares were withheld to satisfy the minimum statuary tax withholding requirements.

17. Commitments and Contingencies

Litigation, Investigations and Audits The Company is a 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 matter. 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.

18. 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.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 in connection with the purchase of raw materials to manage commodity price risk. Commodity forward contracts 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 commodity contracts may include diesel fuel, oil and certain plastics such as high density polyethylene (HDPE) or polypropylene. The Company s diesel fuel 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. As of December 31, 2011, the Company had outstanding oil contracts with a notional amount of 18,000 barrels which expired March 31, 2012. As of March 31, 2012, the Company had outstanding diesel fuel contracts with a notional amount of 750,000 gallons and 10.5 million pounds of polypropylene, expiring June 30, 2012 and December 31, 2012, respectively.

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

	Balance Sheet Location	Fair Value March 31, 2012	December 31, 2011
		(In thousands)	
Asset Derivative:			
Commodity contracts	Prepaid expenses and other current assets	$ 679	$ 163
		$ 679	$ 163

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

	Location of Gain (Loss) Recognized in Income	Three Months Ended March 31, 2012	2011
		(In thousands)	
Mark to market unrealized gain (loss):			
Interest rate swap	Other income, net	$	$ 314
Foreign currency contract	Loss on foreign currency exchange		(390)
Commodity contracts	Other income, net	517	261
		517	185
Realized gain (loss):			
Interest rate swap	Interest expense		(330)
Commodity contracts	Cost of sales	215	63
Commodity contracts	Selling and distribution	58	
		273	(267)
Total gain (loss)		$ 790	$ (82)

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Fair Value

The following table presents the carrying value and fair value of our financial instruments as of March 31, 2012 and December 31, 2011:

	March 31, 2012 Carrying Value (In thousands)	March 31, 2012 Fair Value	December 31, 2011 Carrying Value (In thousands)	December 31, 2011 Fair Value	Level
Not measured at fair value:					
Revolving credit facility	$ 424,700	$ 426,429	$ 395,800	$ 396,728	2
Senior notes	$ 100,000	$ 102,517	$ 100,000	$ 101,529	2
7.75% high yield notes	$ 400,000	$ 434,000	$ 400,000	$ 433,000	2
Measured at fair value:					
Commodity contracts	$ 679	$ 679	$ 163	$ 163	2

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, 7.75% 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 7.75% high yield notes was estimated based on quoted market prices.

The value of the commodity contracts is 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.

20. 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 and corporate expenses which consist of general and administrative expenses, amortization expense, other operating expense, interest expense, foreign currency exchange and other income. 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, 2011.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended March 31, 2012 (In thousands)	Three Months Ended March 31, 2011 (In thousands)
Net sales to external customers:		
North American Retail Grocery	$ 379,041	$ 353,463
Food Away From Home	75,349	74,227
Industrial and Export	69,421	65,823
Total	$ 523,811	$ 493,513
Direct operating income:		
North American Retail Grocery	$ 61,605	$ 65,521
Food Away From Home	9,797	10,762
Industrial and Export	10,998	12,830
Total	82,400	89,113
Unallocated selling and distribution expenses	(1,762)	(4,447)
Unallocated corporate expense	(35,327)	(39,942)
Operating income	45,311	44,724
Other expense	(13,607)	(14,789)
Income before income taxes	$ 31,704	$ 29,935

Geographic Information The Company had net sales to customers outside of the United States of approximately 12.9% and 12.2% of total consolidated net sales in the three months ended March 31, 2012 and 2011, respectively, with 11.9% and 11.3% going to Canada, respectively.

Major Customers Wal-Mart Stores, Inc. and affiliates accounted for approximately 19.6% and 20.5% of consolidated net sales in the three months ended March 31, 2012 and 2011, 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 months ended March 31, 2012 and 2011.

	Three Months Ended March 31, 2012 (In thousands)	Three Months Ended March 31, 2011 (In thousands)
Products:		
Non-dairy creamer	$ 89,159	$ 82,030
Soup and infant feeding	71,939	73,399
Pickles	70,876	70,454
Salad dressings	63,117	51,353
Powdered drinks	53,333	55,888
Mexican and other sauces	51,641	47,190
Hot cereals	43,168	40,754

Dry dinners	33,175	28,770
Aseptic products	24,167	21,936
Jams	16,537	16,104
Other products	6,699	