TreeHouse Foods, Inc.
Form 10-Q
November 07, 2013
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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 September 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	**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 October 31, 2013: 36,414,439

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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)

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 108,052	$ 94,407
Investments	8,273	
Receivables, net	133,945	124,648
Inventories, net	423,340	347,353
Deferred income taxes	8,429	7,998
Prepaid expenses and other current assets	17,164	14,005
Total current assets	699,203	588,411
Property, plant and equipment, net	424,572	425,307
Goodwill	1,071,108	1,073,191
Intangible assets, net	412,407	417,561
Other assets, net	19,179	21,403
Total assets	$ 2,626,469	$ 2,525,873
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 214,177	$ 185,086
Current portion of long-term debt	1,527	1,944
Total current liabilities	215,704	187,030
Long-term debt	908,514	898,100
Deferred income taxes	216,226	212,461
Other long-term liabilities	40,174	49,027
Total liabilities	1,380,618	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, 36,394 and 36,197 shares issued and outstanding, respectively		364		362
Additional paid-in capital		740,147		726,582
Retained earnings		533,154		468,951
Accumulated other comprehensive loss		(27,814)		(16,640)
Total stockholders equity		1,245,851		1,179,255
Total liabilities and stockholders equity	$	2,626,469	$	2,525,873

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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(Unaudited)		(Unaudited)	
Net sales	$ 567,150	$ 538,112	$ 1,633,606	$ 1,589,344
Cost of sales	451,887	424,903	1,294,603	1,254,612
Gross profit	115,263	113,209	339,003	334,732
Operating expenses:				
Selling and distribution	33,437	32,546	97,233	100,698
General and administrative	31,222	27,929	87,801	77,237
Other operating expense, net	861	3,541	2,143	3,952
Amortization expense	8,583	7,848	25,309	24,735
Total operating expenses	74,103	71,864	212,486	206,622
Operating income	41,160	41,345	126,517	128,110
Other expense (income):				
Interest expense	12,598	13,099	37,606	38,763
Interest income	(509)	(339)	(1,509)	(353)
Loss on foreign currency exchange	127	237	607	643
Other (income) expense, net	(428)	(614)	(796)	895
Total other expense	11,788	12,383	35,908	39,948
Income before income taxes	29,372	28,962	90,609	88,162
Income taxes	6,707	7,408	26,405	25,023
Net income	$ 22,665	$ 21,554	$ 64,204	$ 63,139
Net earnings per common share:				
Basic	$ .62	$ .60	$ 1.76	$ 1.75
Diluted	$ .61	$ .58	$ 1.72	$ 1.70
Weighted average common shares:				
Basic	36,482	36,149	36,378	36,116
Diluted	37,438	37,074	37,353	37,116

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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(Unaudited)		(Unaudited)	
Net income	$ 22,665	$ 21,554	$ 64,204	$ 63,139
Other comprehensive income (loss):				
Foreign currency translation adjustments	7,077	14,085	(12,390)	12,301
Pension and post-retirement reclassification adjustment (1)	349	280	1,108	841
Derivative reclassification adjustment (2)	27	40	108	121
Other comprehensive income (loss)	7,453	14,405	(11,174)	13,263
Comprehensive income	$ 30,118	$ 35,959	$ 53,030	$ 76,402

(1) Net of tax of $217 thousand and $178 thousand for the three months ended September 30, 2013 and 2012, respectively, and $652 thousand and $530 thousand for the nine months ended September 30, 2013 and 2012, respectively.

(2) Net of tax of $17 thousand and $25 thousand for the three months ended September 30, 2013 and 2012, respectively, and $68 thousand and $76 thousand for the nine months ended September 30, 2013 and 2012, respectively.

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 64,204	$ 63,139
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	54,889	42,088
Amortization	25,309	24,735
Mark to market (gain) loss on derivative contracts	(942)	972
Mark to market gain on investments	(642)	
Excess tax benefits from stock-based compensation	(3,679)	(2,540)
Stock-based compensation	11,701	9,112
Loss on disposition of assets	220	2,572
Deferred income taxes	1,152	8,248
Other	719	1,139
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(5,843)	(5,928)
Inventories	(67,310)	(51,593)
Prepaid expenses and other assets	(662)	1,313
Accounts payable, accrued expenses and other liabilities	22,770	11,313
Net cash provided by operating activities	101,886	104,570
Cash flows from investing activities:		
Purchase of investments	(7,893)	
Additions to property, plant and equipment	(52,371)	(44,539)
Additions to other intangible assets	(3,800)	(6,812)
Acquisition of business, net of cash acquired	(34,610)	(25,000)
Proceeds from sale of fixed assets	1,883	42
Net cash used in investing activities	(96,791)	(76,309)
Cash flows from financing activities:		
Borrowings under revolving credit facility	397,300	276,600
Payments under revolving credit facility	(285,700)	(224,400)
Payment on senior notes	(100,000)	
Payments on capitalized lease obligations	(1,597)	(1,491)
Net payments related to stock-based award activities	(2,051)	(3,812)
Excess tax benefits from stock-based compensation	3,679	2,540

Net cash provided by financing activities	11,631	49,437
Effect of exchange rate changes on cash and cash equivalents	(3,081)	2,820
Net increase in cash and cash equivalents	13,645	80,518
Cash and cash equivalents, beginning of period	94,407	3,279
Cash and cash equivalents, end of period	$ 108,052	$ 83,797

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, 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 line as presented in the Company s Annual Report on Form 10-K, 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 as presented in the Company s Annual Report on Form 10-K, 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.

On July 1, 2013, the Company completed its acquisition of 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 results of operations are included in our financial statements from the date of acquisition and are included in each of our segments.

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.

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 included the closure of its Mendota, Illinois soup plant. Subsequently, the Company amended the plan to include reductions to the cost structure of its 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 from the Mendota plant 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 $26.5 million as detailed below, of which $4.6 million is expected to be in cash. The total expected costs decreased from $26.7 million as of June 30, 2013, as estimates were refined. 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 expected in the first quarter of 2014. Total costs to close the Seaforth facility are expected to be approximately $13.1 million as detailed below, of which $6.3 million is expected to be in cash. The total expected costs increased from $12.3 million, as of June 30, 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 noted above, the Company reviewed 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 $3.6 million and $16.3 million for the three and nine months ended September 30, 2013, respectively. For the three and nine months ended September 30, 2012, the Company recognized $2.6 million of accelerated depreciation.

Below is a summary of the restructuring costs:

	Soup Restructuring			
	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Cumulative Costs To Date	Total Expected Costs

		(In thousands)		
Accelerated depreciation	$ 3,605	$ 13,586	$ 20,289	$ 21,845
Severance and outplacement		(12)	745	816
Other closure costs	648	866	1,446	3,789
Total	$ 4,253	$ 14,440	$ 22,480	$ 26,450

	Seaforth Closure			
	Three Months Ended September 30, 2013	**Nine Months Ended September 30, 2013**	**Cumulative Costs To Date**	**Total Expected Costs**
		(In thousands)		
Accelerated depreciation	$ (29)	$ 2,687	$ 6,695	$ 6,695
Severance and outplacement	12	508	2,757	2,853
Other closure costs	1,261	2,608	3,086	3,569
Total	$ 1,244	$ 5,803	$ 12,538	$ 13,117

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Liabilities recorded as of September 30, 2013 associated with the restructurings 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 September 30, 2013.

	Severance Liability (In thousands)	
Balance as of January 1, 2013	$	2,686
Expense		485
Payments		(2,471)
Foreign exchange		(77)
Adjustments		(50)
Balance as of September 30, 2013	$	573

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) from TorQuest Partners LLC and other shareholders. Associated Brands is a privately owned Canadian company and a leading private label manufacturer of powdered drinks, specialty teas and sweeteners. The Company 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 closed on October 8, 2013 and was financed through cash on hand and 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 July 1, 2013, the Company completed its acquisition of 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 as private label and branded products. The purchase price was approximately $35 million, net of acquired cash, subject to an adjustment for working capital and taxes. The acquisition was financed through borrowings under the Company s existing $750 million credit facility. The acquisition expanded the Company s footprint in the Northeast United States, enhanced its foodservice presence, and enriched its packaging capabilities.

The Cains 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. Included in the Company s Condensed Consolidated Statements of Income are Cains net sales of approximately $22 million and operating loss of approximately $0.1 million from the date of acquisition through September 30, 2013. At the date of acquisition, the purchase price was allocated to the assets and liabilities acquired based upon fair market values, and is subject to adjustments, primarily for taxes. We have made a preliminary allocation to net tangible and intangible assets acquired and liabilities assumed as follows:

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

		(In thousands)
Cash	$	2,634
Receivables		4,191
Inventory		8,773
Property plant and equipment		7,072
Customer relationships		13,500
Trade names		3,400
Non-compete agreement		200
Formulas		400
Other assets		462
Goodwill		1,821
Fair value of assets acquired		42,453
Assumed liabilities		(5,209)
Total purchase price	$	37,244

The Company allocated $13.5 million to customer relationships that have an estimated life of fifteen years, $3.4 million to trade names that have an estimated life of fifteen years, $0.2 million to a non-compete agreement with an estimated life of five years, and $0.4 million to formulas with an estimated life of five years. The Company has allocated $1.3 million of goodwill to the North American Retail Grocery segment, $0.3 million of goodwill to the Food Away From Home segment, and $0.2 million of goodwill to the Industrial and Export segment. Goodwill arises principally as a result of expansion opportunities. The Company incurred approximately $0.5 million in acquisition related costs. These costs are included in the General and administrative expense line of the Condensed Consolidated Statements of Income. Pro forma disclosures related to the transaction are not included since they are not considered material.

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 was 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.

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 was 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.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Investments

		September 30, 2013
		(In thousands)
U.S. equity	$	4,774
Non-U.S. equity		1,564
Fixed income		1,935
Total investments	$	8,273

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 September 30, 2013 and December 31, 2012, $101.9 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 are expected to be used for general corporate purposes in Canada, including capital projects and acquisitions. On October 8, 2013, the Company completed its acquisition of Associated Brands and used cash on hand in Canada and borrowings under its $750 million credit facility to fund the acquisition.

For the three and nine months ended September 30, 2013, we recognized net unrealized gains on investments totaling $0.3 million and $0.6 million, respectively, that were included in the Interest income line of the Condensed Consolidated Statements of Income. Additionally, for the three and nine months ended September 30, 2013, we recognized realized gains on investments totaling $0.1 million that were 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.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Inventories

	September 30, 2013	December 31, 2012
	(In thousands)	
Raw materials and supplies	$ 153,790	$ 128,186
Finished goods	290,945	238,575
LIFO reserve	(21,395)	(19,408)
Total	$ 423,340	$ 347,353

Approximately $80.8 million and $77.7 million of our inventory was accounted for under the Last-in, First-out (LIFO) method of accounting at September 30, 2013 and December 31, 2012, respectively.

7. Property, Plant and Equipment

	September 30, 2013	December 31, 2012
	(In thousands)	
Land	$ 26,281	$ 25,517
Buildings and improvements	187,093	177,824
Machinery and equipment	511,730	478,394
Construction in progress	26,522	31,335
Total	751,626	713,070
Less accumulated depreciation	(327,054)	(287,763)
Property, plant and equipment, net	$ 424,572	$ 425,307

Depreciation expense was $16.5 million and $16.0 million for the three months ended September 30, 2013 and 2012, respectively, and $54.9 million and $42.1 million for the nine months ended September 30, 2013 and 2012, respectively. Included in depreciation expense for the three and nine months ended September 30, 2013 is $3.6 million and $16.3 million of accelerated depreciation, respectively. For the three and nine months ended September 30, 2012, $2.6 million of accelerated depreciation was included in depreciation expense.

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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, 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
Acquisition	1,309	355	157	1,821
Currency exchange adjustment	(3,415)	(489)		(3,904)
Balance at September 30, 2013	$ 843,110	$ 94,259	$ 133,739	$ 1,071,108

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 September 30, 2013 and December 31, 2012 are as follows:

	September 30, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)			(In thousands)	
Intangible assets with indefinite lives:						
Trademarks	$ 31,886	$	$ 31,886	$ 32,805	$	$ 32,805
Intangible assets with finite lives:						
Customer-related	460,464	(126,392)	334,072	448,825	(107,761)	341,064
Non-compete agreements	320	(46)	274	120	(18)	102
Trademarks	24,210	(6,734)	17,476	20,810	(5,722)	15,088
Formulas/recipes	7,371	(5,407)	1,964	7,017	(4,631)	2,386
Computer software	47,860	(21,125)	26,735	43,339	(17,223)	26,116
Total	$ 572,111	$ (159,704)	$ 412,407	$ 552,916	$ (135,355)	$ 417,561

Amortization expense on intangible assets for the three months ended September 30, 2013 and 2012 was $8.6 million and $7.8 million, respectively, and $25.3 million and $24.7 million for the nine months ended September 30, 2013 and 2012, respectively. Estimated amortization expense on intangible assets for 2013 and the next four years is as follows:

	(In thousands)
2013	$ 35,530
2014	$ 35,644
2015	$ 34,462
2016	$ 34,069
2017	$ 32,457

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Accounts Payable and Accrued Expenses

	September 30, 2013	December 31, 2012
	(In thousands)	
Accounts payable	$ 154,639	$ 121,404
Payroll and benefits	32,442	26,661
Interest and taxes	6,334	16,205
Health insurance, workers compensation and other insurance costs	7,510	6,879
Marketing expenses	6,552	7,180
Other accrued liabilities	6,700	6,757
Total	$ 214,177	$ 185,086

10. Income Taxes

Income tax expense was recorded at an effective rate of 22.8% and 29.1% for the three and nine months ended September 30, 2013, respectively, compared to 25.6% and 28.4% for the three and nine months ended September 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 decrease in the effective tax rate for the three months ended September 30, 2013 as compared to 2012 is attributable to the settlement of unrecognized tax benefits due to expiration of the statute of limitations and the resolution of the Company s 2010 examination by the United States Internal Revenue Service (IRS). The increase in the effective tax rate for the nine months ended September 30, 2013 as compared to 2012 is attributable to an increase in state tax expense and the tax impact of a shift in revenues between jurisdictions.

During the second quarter of 2012, the IRS initiated an examination of TreeHouse Foods 2010 tax year which was closed during the third quarter of 2013, resulting in a small refund to the Company. In the second quarter of 2012, 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 also 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 $3.8 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

	September 30, 2013	December 31, 2012
	(In thousands)	
Revolving credit facility	$ 504,600	$ 393,000
High Yield Notes	400,000	400,000
Senior notes		100,000
Tax increment financing and other debt	5,441	7,044
Total debt outstanding	910,041	900,044
Less current portion	(1,527)	(1,944)
Total long-term debt	$ 908,514	$ 898,100

Revolving Credit Facility The Company is party to an unsecured revolving credit facility with an aggregate commitment of $750 million, of which $234.6 million was available as of September 30, 2013. The revolving credit facility matures September 23, 2016. In addition, as of September 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 September 30, 2013. The Company s average interest rate on debt outstanding under its revolving credit facility for the three and nine months ended September 30, 2013 was 1.43% and 1.54%, respectively.

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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 Bay Valley s 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 with which the Company is in compliance as of September 30, 2013.

Senior Notes During the third quarter of 2013, the Company repaid $100 million in aggregate principal amount of 6.03% senior notes using the Company s existing $750 million revolving credit facility. These senior notes were paid in full on their maturity date, September 30, 2013.

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Weighted average common shares outstanding	36,482	36,149	36,378	36,116
Assumed exercise/vesting of equity awards (1)	956	925	975	1,000
Weighted average diluted common shares outstanding	37,438	37,074	37,353	37,116

(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 0.5 million for the three and nine months ended September 30, 2013, and 0.4 million and 0.6 million for the three and nine months ended September 30, 2012, respectively.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Stock-Based Compensation

Income before income taxes for the three and nine month periods ended September 30, 2013 includes share-based compensation expense of $4.6 million and $11.7 million, respectively. Share-based compensation expense for the three and nine month periods ended September 30, 2012 was $3.4 million and $9.1 million, respectively. The tax benefit recognized related to the compensation cost of these share-based awards was approximately $1.7 million and $4.3 million for the three and nine month periods ended September 30, 2013, respectively, and $1.3 million and $3.1 million for the three and nine month periods ended September 30, 2012, respectively.

The following table summarizes stock option activity during the nine months ended September 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	Director Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value
	(In thousands)				(In thousands)
Outstanding, December 31, 2012	2,468	72	$ 33.19	4.4	$ 50,809
Granted	280		$ 65.96		
Forfeited	(23)		$ 62.52		
Exercised	(72)	(1)	$ 26.54		
Outstanding, September 30, 2013	2,653	71	$ 36.50	4.2	$ 82,615
Vested/expected to vest, at September 30, 2013	2,581	71	$ 35.72	4.1	$ 82,490
Exercisable, September 30, 2013	2,177	71	$ 30.81	3.2	$ 80,957

Compensation costs related to unvested options totaled $7.3 million at September 30, 2013 and will be recognized over the remaining vesting period of the grants, which averages 2.2 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 nine months ended September 30, 2013 was $20.46. Stock options issued during the nine months ended September 30, 2013 totaled 280 thousand. The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2013 and 2012 was approximately $2.9 million and $1.8 million, respectively. The tax benefit recognized from stock option exercises was $1.1 million and $0.7 million for the nine months ended September 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 nine months ended September 30, 2013.

	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	126	$ 66.01	19	$ 65.97
Vested	(147)	$ 52.66	(4)	$ 58.37
Forfeited	(22)	$ 59.43		$
Outstanding, at September 30, 2013	310	$ 58.68	93	$ 44.06

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future compensation costs related to restricted stock units is approximately $12.9 million as of September 30, 2013, and will be recognized on a weighted average basis over the next 2.0 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 nine months ended September 30, 2013 and 2012 had a fair value on the vest date of $9.8 million and $11.1 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. On August 31, 2013, based on achievement of operating performance measures, 870 performance units were converted into 755 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 nine months ended September 30, 2013:

	Performance Units (In thousands)	Weighted Average Grant Date Fair Value
Unvested, at December 31, 2012	165	$ 56.57
Granted	91	$ 65.65
Vested	(34)	$ 46.20
Forfeited	(6)	$ 55.85
Unvested, at September 30, 2013	216	$ 62.00

Future compensation costs related to the performance units is estimated to be approximately $14.1 million as of September 30, 2013, and is expected to be recognized over the next 2.5 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)

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	(12,390)			(12,390)
Reclassifications from accumulated other comprehensive loss		1,108	108	1,216
Other comprehensive (loss) income	(12,390)	1,108	108	(11,174)
Balance at September 30, 2013	$ (14,397)	$ (13,417)	$	$ (27,814)
Balance at December 31, 2011	$ (10,268)	$ (11,825)	$ (269)	$ (22,362)
Other comprehensive income	12,301			12,301
Reclassifications from accumulated other comprehensive loss		841	121	962
Other comprehensive income	12,301	841	121	13,263
Balance at September 30, 2012	$ 2,033	$ (10,984)	$ (148)	$ (9,099)

(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 $652 thousand and $530 thousand for the nine months ended September 30, 2013 and 2012, respectively.

(3) The derivative financial instrument reclassification is presented net of tax of $68 thousand and $76 thousand for the nine months ended September 30, 2013 and 2012, respectively.

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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 September 30,		Nine months ended September 30,		
	2013	2012	2013	2012	
	(In thousands)		(In thousands)		
Derivative financial instrument	$ 44	$ 65	$ 176	$ 197	Interest expense
Income taxes	17	25	68	76	Income taxes
Net of tax	$ 27	$ 40	$ 108	$ 121	
Amortization of defined benefit pension					
Prior service costs	$ 96	$ 134	$ 289	$ 402	(a)
Unrecognized net loss	470	324	1,410	969	(a)
Other			61		
Total before tax	566	458	1,760	1,371	
Income taxes	217	178	652	530	Income taxes
Net of tax	$ 349	$ 280	$ 1,108	$ 841	

(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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Service cost	$ 648	$ 525	$ 1,943	$ 1,790
Interest cost	628	643	1,883	1,827
Expected return on plan assets	(730)	(582)	(2,015)	(1,745)
Amortization of prior service costs	114	151	342	453
Amortization of unrecognized net loss	459	459	1,376	1,077
Net periodic pension cost	$ 1,119	$ 1,196	$ 3,529	$ 3,402

The Company contributed $4.9 million to the pension plans in the first nine months of 2013. The Company expects to make additional contributions to the plans of $0.4 million in 2013.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of net periodic postretirement expense are as follows:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(In thousands)			
Service cost	$ 5	$ 8	$ 15	$ 23
Interest cost	37	39	109	116
Amortization of prior service costs	(18)	(18)	(53)	(53)
Amortization of unrecognized net loss	11	14	34	41
Net periodic postretirement cost	$ 35	$ 43	$ 105	$ 127

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 Expense, Net

The Company incurred other operating expense for the three and nine months ended September 30, 2013 and 2012, which consisted of the following:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(In thousands)		(In thousands)	
Restructuring	$ 861	$ 3,541	$ 2,143	$ 4,095
Other income				(143)
Total other operating expense, net	$ 861	$ 3,541	$ 2,143	$ 3,952

17. Supplemental Cash Flow Information

	Nine Months Ended September 30,			
	2013		2012	
	(In thousands)			
Interest paid	$	43,780	$	42,323
Income taxes paid	$	30,963	$	25,274
Accrued purchase of property and equipment	$	2,751	$	5,211
Accrued other intangible assets	$	1,658	$	1,553
Accrued purchase price	$		$	956

Non-cash financing activities for the nine months ended September 30, 2013 and 2012 include the settlement of 182,063 shares and 153,436 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.

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 September 30, 2013, the Company did not have any foreign currency contracts outstanding. As of September 30, 2012, the Company had three foreign currency contracts for the purchase of U.S. dollars, all of which expired in the fourth quarter of 2012. The total contracted U.S. dollar amount as of September 30, 2012 was $18 million.

Certain commodities we use in the production and distribution of our products are exposed to market price risk. The Company utilizes derivative contracts to manage commodity price risk. The majority of commodity forward contracts are not derivatives, and those that are, generally qualify for the normal purchases and normal sales scope exception under the guidance for derivative instruments and hedging activities, and therefore are not subject to its provisions. For derivative commodity contracts that do not qualify for the normal purchases and normal sales scope exception, the Company records their fair value on the Company s Condensed Consolidated Balance Sheets, with changes in value being recorded in the Condensed Consolidated Statements of Income.

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 purchases and normal sales scope 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 purchases and normal sales scope exception are used to manage the price risk associated with raw material costs. As of September 30, 2013, the Company had outstanding contracts for the purchase of 9,727 megawatts of electricity, expiring in the fourth quarter of 2013, and outstanding contracts for the purchase of 39,886 megawatts of electricity, expiring throughout 2014. In addition, as of

September 30, 2013, the Company had outstanding contracts for the purchase of 464,059 dekatherms of natural gas, expiring in the fourth quarter of 2013, and 1.5 million gallons of outstanding diesel fuel contracts that expire in the fourth quarter of 2013.

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 September 30, 2013 (In thousands)		Fair Value December 31, 2012 (In thousands)	
Asset Derivative:					
Commodity contracts	Prepaid expenses and other current assets	$	298	$	
		$	298	$	

	Balance Sheet Location	Fair Value September 30, 2013 (In thousands)		Fair Value December 31, 2012 (In thousands)	
Liability Derivative:					
Commodity contracts	Accounts payable and accrued expenses	$	285	$	929
		$	285	$	929

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 September 30, 2013 (In thousands)		Three Months Ended September 30, 2012 (In thousands)		Nine Months Ended September 30, 2013 (In thousands)		Nine Months Ended September 30, 2012 (In thousands)	
Mark to market unrealized gain (loss):									
Foreign currency contracts	Loss on foreign currency exchange	$		$	(40)	$		$	(40)
Commodity contracts	Other (income) expense, net		443		649		942		(932)
Total unrealized gain (loss)			443		609		942		(972)
Realized (loss) gain:									
Commodity contracts	Cost of sales				(688)				(660)

Commodity contracts	Selling and distribution		(37)		278		(166)	351
Total realized loss			(37)		(410)		(166)	(309)
Total gain (loss)		$	406	$	199	$	776	$ (1,281)

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 September 30, 2013 and December 31, 2012:

	September 30, 2013		December 31, 2012		
	Carrying Value	Fair Value	Carrying Value	Fair Value	Level
	(In thousands)		(In thousands)		
Not recorded at fair value (liability):					
Revolving credit facility	$ (504,600)	$ (502,417)	$ (393,000)	$ (393,353)	2
Senior notes	$	$	$ (100,000)	$ (102,341)	2
High Yield Notes	$ (400,000)	$ (423,000)	$ (400,000)	$ (433,500)	2
Recorded on a recurring basis at fair value asset (liability):					
Commodity contracts	$ 13	$ 13	$ (929)	$ (929)	2
Investments	$ 8,273	$ 8,273	$	$	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 were 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 was 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 was 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.

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(In thousands)		(In thousands)	
Net sales to external customers:				
North American Retail Grocery	$ 401,907	$ 384,663	$ 1,163,733	$ 1,135,204
Food Away From Home	96,869	89,827	264,357	253,061
Industrial and Export	68,374	63,622	205,516	201,079
Total	$ 567,150	$ 538,112	$ 1,633,606	$ 1,589,344
Direct operating income:				
North American Retail Grocery	$ 62,314	$ 60,331	$ 188,705	$ 176,835
Food Away From Home	13,027	12,568	35,888	32,844
Industrial and Export	12,125	11,197	38,038	30,497
Total	87,466	84,096	262,631	240,176
Unallocated selling and distribution expenses	(1,286)	(811)	(3,969)	(3,520)
Unallocated costs of sales (1)	(4,354)	(2,622)	(16,892)	(2,622)
Unallocated corporate expense	(40,666)	(39,318)	(115,253)	(105,924)
Operating income	41,160	41,345	126,517	128,110
Other expense	(11,788)	(12,383)	(35,908)	(39,948)
Income before income taxes	$ 29,372	$ 28,962	$ 90,609	$ 88,162

(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 13.0% and 13.3% of total consolidated net sales in the nine months ended September 30, 2013 and 2012, respectively, with 11.9% and 12.3% going to Canada, respectively.

Major Customers Wal-Mart Stores, Inc. and affiliates accounted for approximately 19.4% and 20.5% of consolidated net sales in the nine months ended September 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 product for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Products				
Non-dairy creamer	$ 82,387	$ 84,109	$ 253,524	$ 257,006
Salad dressings	92,178	73,248	246,460	213,894
Pickles	72,583	77,032	228,959	236,532
Powdered drinks	85,971	54,579	226,085	160,252
Mexican and other sauces	61,290	58,208	182,695	173,277
Soup and infant feeding	49,578	70,248	141,582	194,871
Hot cereals	37,108	37,466	118,878	114,435
Dry dinners	33,189	34,537	90,969	95,901
Aseptic products	25,243	22,390	72,925	71,076
Jams	15,921	14,330	45,042	45,874
Other products	11,702	11,965	26,487	26,226
Total net sales	$ 567,150	$ 538,112	$ 1,633,606	$ 1,589,344

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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 Bay Valley s 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 September 30, 2013 and 2012, and for the three and nine months ended September 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
September 30, 2013
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$	$ 681	$ 107,371	$	$ 108,052
Investments			8,273		8,273
Receivables, net	383	108,289	25,273		133,945
Inventories, net		366,636	56,704		423,340
Deferred income taxes		8,296	133		8,429
Prepaid expenses and other current assets	32,182	12,099	1,388	(28,505)	17,164
Total current assets	32,565	496,001	199,142	(28,505)	699,203
Property, plant and equipment, net	13,836	371,388	39,348		424,572
Goodwill		959,440	111,668		1,071,108
Investment in subsidiaries	1,849,197	208,367		(2,057,564)	
Intercompany accounts receivable (payable), net	248,292	(52,501)	(195,791)		
Deferred income taxes	14,446			(14,446)	
	46,835	298,541	86,210		431,586

Identifiable intangible and other assets, net										
Total assets	$	2,205,171	$	2,281,236	$	240,577	$	(2,100,515)	$	2,626,469
Liabilities and Stockholders Equity										
Current liabilities:										
Accounts payable and accrued expenses	$	44,327	$	180,599	$	17,756	$	(28,505)	$	214,177
Current portion of long-term debt				1,526		1				1,527
Total current liabilities		44,327		182,125		17,757		(28,505)		215,704
Long-term debt		904,600		3,894		20				908,514
Deferred income taxes		2,066		214,173		14,433		(14,446)		216,226
Other long-term liabilities		8,327		31,847						40,174
Stockholders equity		1,245,851		1,849,197		208,367		(2,057,564)		1,245,851
Total liabilities and stockholders equity	$	2,205,171	$	2,281,236	$	240,577	$	(2,100,515)	$	2,626,469

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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

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Supplemental Consolidating Statement of Income

Three Months Ended September 30, 2013

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 496,225	$ 94,729	$ (23,804)	$ 567,150
Cost of sales		397,981	77,710	(23,804)	451,887
Gross profit					