TreeHouse Foods, Inc.
Form 10-Q
August 07, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934**
For the Quarterly Period Ended June 30, 2008.

or

o **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.)
Two Westbrook Corporate Center, Suite 1070 Westchester, IL	**60154**
(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or 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. (Check one)

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of July 31, 2008 there were 31,447,661 shares of Common Stock, par value $0.01 per share, outstanding.

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Part I Financial Information

Item 1. Financial Statements

TREEHOUSE FOODS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30, 2008	December 31, 2007
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 3,663	$ 9,230
Receivables, net	87,235	76,951
Inventories	275,661	297,692
Deferred income taxes	2,821	2,790
Prepaid expenses and other current assets	12,226	7,068
Assets held for sale	4,377	
Net assets of discontinued operations	441	544
Total current assets	386,424	394,275
Property, plant and equipment, net	265,660	265,007
Goodwill	585,869	590,791
Deferred income taxes		3,504
Identifiable intangible and other assets, net	192,420	202,381
Total assets	$ 1,430,373	$ 1,455,958
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 141,473	$ 144,090
Current portion of long-term debt	423	677
Total current liabilities	141,896	144,767
Long-term debt	588,008	620,452
Deferred income taxes	27,765	27,517
Other long-term liabilities	33,920	33,913
Commitments and contingencies (Note 15)		
Stockholders equity:		
Preferred stock, par value $0.01 per share, 10,000,000 shares authorized, none issued		
Common stock, par value $0.01 per share, 40,000,000 shares authorized, 31,222,005 and 31,204,305 shares issued and outstanding, respectively	312	312
Additional paid-in capital	555,919	550,370
Retained earnings	96,019	85,724
Accumulated other comprehensive loss	(13,466)	(7,097)
Total stockholders equity	638,784	629,309

Total liabilities and stockholders equity	$ 1,430,373	$ 1,455,958

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 June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(Unaudited)		(Unaudited)	
Net sales	$ 367,369	$ 256,031	$ 727,992	$ 515,015
Cost of sales	298,740	202,424	588,974	409,319
Gross profit	68,629	53,607	139,018	105,696
Operating expenses:				
Selling and distribution	28,948	21,483	57,612	42,949
General and administrative	15,760	12,096	31,002	25,622
Other operating expense (income), net	928	(365)	11,850	(311)
Amortization expense	3,528	1,244	7,015	2,310
Total operating expenses	49,164	34,458	107,479	70,570
Operating income	19,465	19,149	31,539	35,126
Other (income) expense:				
Interest expense	7,561	3,982	15,292	7,852
Interest income	(87)	(5)	(107)	(51)
Loss (gain) on foreign currency exchange	(5)		1,855	
Other (income) expense, net	113		(181)	
Total other expense	7,582	3,977	16,859	7,801
Income from continuing operations, before income taxes	11,883	15,172	14,680	27,325
Income taxes	3,591	5,789	4,327	10,519
Income from continuing operations	8,292	9,383	10,353	16,806
Loss from discontinued operations, net of tax		21		30
Net income	$ 8,292	$ 9,362	$ 10,353	$ 16,776
Weighted average common shares:				
Basic	31,209	31,202	31,207	31,202
Diluted	31,341	31,312	31,325	31,312
Basic earnings per common share:				
Income from continuing operations	$ .27	$ .30	$ .33	$ .54
Loss from discontinued operations, net of tax				
Net income	$ .27	$ .30	$ .33	$ .54
Diluted earnings per common share:				

Income from continuing operations	$	.26	$	.30	$	.33	$	.54
Loss from discontinued operations, net of tax								
Net income	$	.26	$	.30	$	.33	$	.54

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 10,353	$ 16,776
Loss from discontinued operations		30
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	16,917	13,543
Amortization	7,015	2,310
Gain on derivative	(519)	
Loss on foreign currency exchange	1,855	
Stock-based compensation	5,381	6,789
Write down of impaired assets	5,197	
Gain on disposition of assets	(387)	(431)
Deferred income taxes	3,964	2,425
Interest rate swap amortization	80	81
Other	133	
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(11,290)	4,777
Inventories	20,176	5,182
Prepaid expenses and other current assets	(4,699)	5,620
Accounts payable, accrued expenses and other current liabilities	1,739	5,493
Net cash provided by continuing operations	55,915	62,595
Net cash used in discontinued operations		(31)
Net cash provided by operating activities	55,915	62,564
Cash flows from investing activities:		
Additions to property, plant and equipment	(29,683)	(6,304)
Insurance proceeds	598	
Acquisitions of businesses	(402)	(100,585)
Acquisition of equity investment		(2,686)
Proceeds from sale of fixed assets	743	1,341
Net cash used in continuing operations	(28,744)	(108,234)
Net cash provided by discontinued operations		467
Net cash used in investing activities	(28,744)	(107,767)
Cash flows from financing activities:		
Proceeds from issuance of debt		98,364
Net repayment of debt	(32,884)	(53,077)
Proceeds from stock option exercises	187	
Tax savings on equity compensation	100	

Net cash provided (used in) financing activities	(32,597)	45,287
Effect of exchange rate changes on cash and cash equivalents	(141)	
Net (decrease) increase in cash and cash equivalents	(5,567)	84
Cash and cash equivalents, beginning of period	9,230	6
Cash and cash equivalents, end of period	$ 3,663	$ 90

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 six months ended June 30, 2008
(Unaudited)

1. General

We believe we are the largest manufacturer of pickles and non-dairy powdered creamer in the United States and the largest manufacturer of private label salad dressings in the United States and Canada based upon total sales volumes. We believe we are also the leading retail private label supplier of pickles, non-dairy powdered creamer and soup in the United States, and jams and jellies in Canada.

Effective January 1, 2008, we realigned the manner in which the business is managed and now focus on operating results based on channels of distribution, which has resulted in a change to the operating and reportable segments. Previously, we managed our business based on product categories. Our change in operating and reportable segments from product categories to channel based is consistent with management s long-term growth strategy. Our new reportable segments are North American Retail Grocery, Food Away From Home, and Industrial and Export. Accordingly, prior year segment data has been restated to reflect the new segment structure.

2. Basis of Presentation

The Condensed Consolidated Financial Statements included herein have been prepared by TreeHouse Foods, Inc. without audit, pursuant to the rules and regulations of the Securities and Exchange Commission 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, 2007. 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 under different assumptions or conditions.

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, 2007.

3. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 157 *Fair Value Measurement*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, which delays the effective date of Statement 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. We adopted the provisions of SFAS 157 that were not deferred. We will continue to assess the impact of the deferred provisions of SFAS 157, which will be effective for the Company beginning January 1, 2009.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement 115*, that permits measurement of financial instruments and other certain items at fair value. SFAS 159 does not require any new fair value measurements. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Adoption of SFAS 159 did not have an impact on our financial statements.

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In December 2007, the FASB issued SFAS 141(R), *Business Combinations,* a replacement of SFAS 141, *Business Combinations.* The provisions of SFAS 141(R) establish principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest acquired and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination, and applies to business combinations for which the acquisition date is on or after December 15, 2008, and may not be early adopted. The Company will adopt SFAS 141(R) for acquisitions after the effective date.

In December 2007, FASB issued SFAS 160, *Non-controlling Interests in Consolidated Financial Statements an Amendment of ARB 51.* The provisions of SFAS 160 outline the accounting and reporting for ownership interests in a subsidiary held by parties other than the parent. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier application is prohibited. SFAS 160 is to be applied prospectively as of the beginning of the fiscal year in which it is initially adopted, except for the presentation and disclosure requirements, which are to be applied retrospectively for all periods presented. We are currently assessing the impact SFAS 160 will have on our financial statements.

In March 2008, FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities,* SFAS 161 requires increased qualitative, and credit-risk disclosures. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early adoption is permitted. Further, entities are encouraged, but not required to provide comparative disclosures for earlier periods. We are currently assessing the impact SFAS 161 will have on our financial statements.

In May 2008, FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements presented in conformity with generally accepted accounting principles in the United States. It does not change current practice. This Statement is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not believe this Statement will have an impact on our financial statements.

EITF 08-3, *Accounting by Lessees for Nonrefundable Maintenance Deposits,* was issued in June 2008 and requires that all nonrefundable maintenance deposits that are contractually and substantively related to maintenance of a particular asset be recorded as deposit assets. These deposit assets are either capitalized or expensed when the underlying maintenance is performed. This EITF is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact this EITF will have on our financial statements.

4. Income Taxes

The Company was formed on January 25, 2005 and is subject to federal and state income tax examinations beginning in 2005. The Internal Revenue Service (IRS) completed an examination of the Company s 2005 and 2006 federal returns in the second quarter of 2008. The Company paid tax adjustments of approximately $0.3 million which are primarily temporary items, the impact of which will reverse in future years.

The Company s wholly owned consolidated subsidiary, E.D. Smith, and its affiliates are subject to Canadian, U.S., and state tax examinations from 2003 forward. The IRS is currently conducting an examination of E.D. Smith U.S. affiliates for 2005. The outcome of this examination is unknown and is expected to be completed during 2008.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48), on January 1, 2007. The adoption of FIN 48 did not have a material effect on the financial position or results of operations of the Company.

During the first quarter of 2008, the Company entered into an intercompany financing structure that results in the recognition of foreign earnings subject to a low effective tax rate. As the foreign earnings are permanently reinvested, U.S. income taxes have not been provided. For the three and six months ended June 30, 2008, the Company recognized a tax benefit of approximately $1.4 million and $2.8 million, respectively, related to this item.

5. Other Operating Expense

The Company incurred Other operating expense of $0.9 million and $11.9 million for the three and six months ended June 30, 2008, respectively. For the six months ended June 30, 2008, this expense consisted of $11.4 million relating to the closing of our pickle plant located in Portland, Oregon (See Note 6) and $0.5 million relating to a fire at our non-dairy powdered creamer facility located in New Hampton, Iowa.

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6. Facility Closing

On February 13, 2008, the Company announced plans to close its pickle plant in Portland, Oregon. The Portland plant was the Company s highest cost and lowest utilized pickle facility. Operations in the plant ceased during the second quarter of 2008. Costs associated with the plant closure are estimated to be approximately $15.0 million, of which $9.0 million is expected to be in cash, net of estimated proceeds from sale of assets.

The principal components of the plans include workforce reductions (approximately $0.9 million) as a result of the facility closing and reorganization; shutdown costs (approximately $3.0 million), including those costs that are necessary to clean and prepare the facility for closure; costs incurred after shutdown such as lease obligations (approximately $0.7 million); contract termination costs (approximately $4.8 million), and fixed asset impairment charges of $5.2 million.

During the six months ended June 30, 2008, the Company recorded $11.4 million of costs, (included in Other operating expense in our Condensed Consolidated Statements of Income), related to the closure of the Portland plant, which included a fixed asset impairment charge of $5.2 million to reduce the carrying value of the Portland facility to its net realizable value, $5.3 million for contract terminations and other costs, as well as $0.9 million for accrued severance. The following is a summary of the liabilities recorded by the Company as of and during the six months ended June 30, 2008:

	Accrued Charges at December 31, 2007	Accruals	Payments	Accrued Charges at June 30, 2008
		(In thousands)		
Contract terminations	$	$ 3,092	$ (2,915)	$ 177
Work force reductions		869	(191)	678
Capital lease and service contract buyout	5,681	1,694	(7,375)	
Total	$ 5,681	$ 5,655	$ (10,481)	$ 855

We expect the restructuring plan for the facility to be completed by the end of the third quarter in 2008.

7. Inventories

	June 30, 2008	December 31, 2007
	(In thousands)	
Finished goods	$ 203,463	$ 222,452
Raw materials and supplies	88,686	89,328
LIFO reserve	(16,488)	(14,088)
Total	$ 275,661	$ 297,692

Approximately $62.9 million and $92.4 million of our inventory was accounted for under the LIFO method of accounting at June 30, 2008 and December 31, 2007, respectively.

8. Intangible Assets

Changes in the carrying amount of goodwill for the six months ended June 30, 2008 are as follows:

North

	American Retail Grocery	Food Away From Home	Industrial and Export	Total
	(In thousands)			
Balance at December 31, 2007	$ 370,688	$ 86,521	$ 133,582	$ 590,791
Purchase price adjustment	(664)	(50)		(714)
Currency exchange adjustment	(3,821)	(387)		(4,208)
Balance at June 30, 2008	$ 366,203	$ 86,084	$ 133,582	$ 585,869

The Company continues to assess the preliminary allocations to the E.D. Smith net assets acquired in October 2007, and expects to complete the assessment during the fourth quarter of 2008.

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The gross carrying amount and accumulated amortization of our intangible assets other than goodwill as of June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Intangible assets with indefinite lives:						
Trademarks	$ 43,568	$	$ 43,568	$ 44,367	$	$ 44,367
Intangible assets with finite lives:						
Customer-related	150,749	(19,511)	131,238	152,812	(13,607)	139,205
Non-compete agreement	2,646	(1,078)	1,568	2,646	(708)	1,938
Trademarks	8,500	(1,177)	7,323	8,500	(970)	7,530
Formulas/recipes	1,811	(222)	1,589	1,849	(87)	1,762
Total	$ 207,274	$ (21,988)	$ 185,286	$ 210,174	$ (15,372)	$ 194,802

Amortization expense on intangible assets for the three months ended June 30, 2008 and 2007 was $3.5 million and $1.2 million, respectively, and $7.0 million and $2.3 million for the six months ended June 30, 2008 and 2007, respectively. Estimated aggregate intangible asset amortization expense for the next five years is as follows:

2009	$13.3 million
2010	$12.9 million
2011	$11.1 million
2012	$11.0 million
2013	$11.0 million

9. Long-Term Debt

	June 30, 2008	December 31, 2007
	(In thousands)	
Revolving credit facility	$ 484,500	$ 511,500
Senior notes	100,000	100,000
Tax increment financing and other	3,931	9,629
	588,431	621,129
Less current portion	(423)	(677)
Total	$ 588,008	$ 620,452

Revolving Credit Facility On August 30, 2007, the Company entered into Amendment No. 2 to our unsecured revolving Credit Agreement, as amended (the Credit Agreement), dated June 27, 2005, with a group of participating financial institutions. Among other things, Amendment No. 2 reduces the available liquidity requirement with respect to permitted acquisitions and reduces the required consolidated interest coverage ratio at the end of each fiscal quarter. The Company also exercised its option under the Credit Agreement to increase the aggregate commitments under the revolving credit facility from $500 million to $600 million. The Credit Agreement also provides for a $75 million letter of credit sublimit, against which $6.2 million in letters of credit have been issued but undrawn. Proceeds from the credit facility may be used for working capital and general corporate purposes, including acquisition financing. The credit facility contains various financial and other restrictive covenants and requires that we maintain certain financial ratios, including a leverage and interest coverage ratio. We are in compliance with all applicable covenants as of June 30, 2008. We believe that, given our cash flow from operating activities and our available credit capacity, we can comply with the current terms of the credit facility and meet foreseeable financial requirements.

Interest is payable quarterly or at the end of the applicable interest period in arrears on any outstanding borrowings at a customary Eurodollar rate plus the applicable margin, or at a customary base rate. The underlying rate is defined as the rate equal to the British Bankers Association LIBOR Rate for Eurodollar Rate Loans, or the higher of the prime lending rate of the administrative agent or federal funds rate plus 0.5% for Base Rate Committed Loans. The applicable margin for Eurodollar loans is based on our consolidated leverage ratio and ranges from 0.295% to 0.90%. In addition, a facility fee based on our consolidated leverage ratio and ranging from 0.08% to 0.225% is due quarterly on all commitments under the credit facility. Our average interest rate on debt outstanding under our Credit Agreement at June 30, 2008 was 3.53%.

Senior Notes On September 22, 2006, we completed a private placement of $100 million in aggregate principal of 6.03% senior notes due September 30, 2013, pursuant to a Note Purchase Agreement among the Company and a group of purchasers. All of the Company s obligations under the senior notes are fully and unconditionally guaranteed by Bay Valley Foods, LLC, a wholly-owned subsidiary of the Company. The senior notes have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States, absent registration or an applicable exemption. Interest is paid semi-annually in arrears on March 31 and September 30 of each year. 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. We are in compliance with the applicable covenants as of June 30, 2008.

Swap Agreement In July 2006, we entered into a forward interest rate swap transaction for a notational amount of $100 million as a hedge of the forecasted private placement of $100 million senior notes. The interest rate swap transaction was terminated on August 31, 2006, which resulted in a pre-tax loss of $1.8 million. The unamortized loss is reflected, net of tax, in Accumulated other comprehensive loss in our Condensed Consolidated Balance Sheets. The total loss will be reclassified ratably to our Condensed Consolidated Statements of Income as an increase to Interest expense over the term of the senior notes, providing an effective interest rate of 6.29% over the term of our senior notes. In the six months ended June 30, 2008, $0.1 million of the loss was taken into interest expense. We anticipate that $0.3 million of the loss will be reclassified to interest expense in 2008.

Tax Increment Financing On December 15, 2001, the Urban Redevelopment Authority of Pittsburgh (URA) issued $4.0 million of redevelopment bonds, pursuant to a Tax Increment Financing Plan to assist with certain aspects of the development and construction of the Company s Pittsburgh, Pennsylvania facilities. The agreement was transferred to the Company as part of the acquisition of the soup and infant feeding business. The Company has agreed to make certain payments with respect to the principal amount of the URA s redevelopment bonds through May 2019. As of June 30, 2008, $3.1 million remains outstanding. Interest accrues at an annual rate of: 6.61%, with respect to the $0.7 million tranche which is due on November 1, 2011; 6.71%, with respect to the $0.5 million tranche which is due on November 1, 2013; and 7.16%, with respect to the $1.9 million tranche which is due on May 1, 2019.

10. Earnings Per Share

In accordance with SFAS 128 *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 outstanding options and restricted stock. Certain restricted stock units and restricted stock awards outstanding are subject to market conditions for vesting, which were not met as of June 30, 2008 or 2007, so these awards are excluded from the diluted earnings per share calculation. During the second quarter of 2008, the Company issued performance unit awards that contain both service and performance criteria. As of June 30, 2008, none of the criteria were met and these awards were excluded from the diluted earnings per share calculation.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Weighted average common shares outstanding	31,208,730	31,202,473	31,206,834	31,202,473
Assumed exercise of stock options (1)	132,112	109,091	117,742	109,936
Weighted average diluted common shares outstanding	31,340,842	31,311,564	31,324,576	31,312,409

(1) The assumed exercise of stock options excludes 2,500,035 options outstanding, which were anti-dilutive for the three and six months ended June 30, 2008 and 2,138,877, options outstanding, which were anti-dilutive for the three and six months ended June 30, 2007.

11. Stock-Based Compensation

For the quarter beginning July 1, 2005, we adopted the requirements of SFAS 123(R), *Share Based Payments*. The Company elected to use the modified prospective application of SFAS 123(R) for awards issued prior to July 1, 2005. Income from continuing operations before income taxes, for the three and six month periods ended June 30, 2008 and 2007 includes share-based compensation expense for employee and director stock options, restricted stock and restricted stock units of $2.6 million, $5.4 million, $3.1 million and $6.8 million, respectively. The tax benefit recognized related to the compensation cost of these share-based awards was approximately $1.0 million and $2.1 million for the three and six month periods ended June 30, 2008, and $1.2 million and $2.6 million for the three and six month periods ended June 30, 2007, respectively.

During the three months ended June 30, 2008, the Company issued its annual equity compensation awards that consisted of stock options, restricted stock, restricted stock units and performance units. In previous years, the Company issued stock options to all eligible employees on an annual basis. The Company changed its equity compensation methodology and now awards eligible employees stock options, restricted stock or restricted stock units, or a combination of the awards. Performance units were also issued to certain senior management employees, the vesting of which is contingent upon service and performance criteria. These awards are more fully described below. Restricted stock and restricted stock unit awards previously granted are fully described in the Company s annual report on Form 10-K issued on February 28, 2008.

The following table summarizes stock option activity during the six months ended June 30, 2008. Options were granted under our long-term incentive plan. All options granted have a three year vesting schedule which vest one-third on each of the first three anniversaries of the grant date. Options expire 10 years from the grant date.

	Employee Options	Director Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value
Outstanding, December 31, 2007	2,100,878	457,300	$ 26.26	7.6	$ 2,971,492
Granted	440,900	4,800	$ 24.03		
Forfeited	(31,699)	(14,299)	$ 26.83		
Exercised		(22,700)	$ 10.56		
Outstanding, June 30, 2008	2,510,079	425,101	$ 26.04	7.5	$ 3,376,825
Vested/expected to vest, at June 30, 2008	2,444,328	421,694	$ 26.06	7.5	$ 3,356,018
Exercisable, June 30, 2008	1,639,504	388,429	$ 26.55	6.7	$ 3,033,772

Compensation cost related to unvested options totaled $8.3 million at June 30, 2008 and will be recognized over the remaining vesting period of the grants, which averages 2 years. The average grant date fair value of the options granted in the six months ended June 30, 2008 was $8.09. The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used to calculate the fair value of the stock option awards for the Company s annual grant in 2008 include the following: expected volatility of 26.37%, expected term of 6 years, risk-free rate of 3.53% and no dividends. The aggregate intrinsic value of stock options exercised during the six months ended was approximately $0.3 million.

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In addition to stock options, the Company granted restricted stock, restricted stock units and performance unit awards during the three months ended June 30, 2008. These awards were granted under our long-term incentive plan. Restricted stock and restricted stock unit awards granted during the three months ended June 30, 2008 vest based on the passage of time. These awards generally vest one-third on each anniversary of the grant date. A description of the restricted stock and restricted stock unit awards previously granted is presented in the Company s annual report on Form 10-K issued on February 28, 2008. The following table summarizes the restricted stock and restricted stock unit activity during the six months ended June 30, 2008:

	Restricted Stock	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested, at December 31, 2007	626,622	$ 24.26	584,339	$ 25.31
Granted	806,200	$ 24.06	14,300	$ 24.06
Vested				
Forfeited				
Unvested, at June 30, 2008	1,432,822	$ 24.15	598,639	$ 25.28

Future compensation cost related to restricted stock and restricted stock units totaled approximately $20.5 million as of June 30, 2008, and will be recognized on a weighted average basis, over the next 2.8 years. The grant date fair value of the awards granted in 2008 was equal to the Company s closing stock price on the grant date.
Performance unit awards were granted to certain senior management members. These awards contain service and performance conditions. For each performance period (July 1, 2008 through December 31, 2008, calendar 2009 and calendar 2010), 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 (July 1, 2008 through December 31, 2010), 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 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 six months ended June 30, 2008:

	Performance Units	Weighted Average Grant Date Fair Value
Unvested, at December 31, 2007		
Granted	72,900	$ 24.06
Vested		
Forfeited		
Unvested, at June 30, 2008	72,900	$ 24.06

Future compensation cost related to the performance units is estimated to be approximately $1.8 million as of June 30, 2008, and is expected to be recognized over the next 3 years. The grant date fair value of the awards granted in 2008 was equal to the Company s closing stock price on the grant date.

12. Employee Retirement and Postretirement Benefits

Pension, Profit Sharing and Postretirement Benefits Certain of our 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.

Defined Benefit Plans The benefits under our defined benefit plans are based on years of service and employee compensation.

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Components of net periodic pension expense are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Service cost	$ 430	$ 434	$ 860	$ 868
Interest cost	430	403	860	806
Expected return on plan assets	(358)	(338)	(716)	(676)
Amortization of prior service costs	120	116	240	232
Effect of settlements	75		150	
Net periodic pension cost	$ 697	$ 615	$ 1,394	$ 1,230

We have contributed $1.7 million to the pension plans in the first six months of 2008. We expect to contribute $8.4 million in 2008.

Postretirement Benefits We provide healthcare benefits to certain retirees who are covered under specific group contracts.

Components on net periodic postretirement expenses are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Service cost	$ 59	$ 101	$ 118	$ 202
Interest cost	58	68	116	136
Amortization of prior service cost	(18)		(36)	
Amortization of unrecognized net loss	6	20	12	40
Net periodic postretirement cost	$ 105	$ 189	$ 210	$ 378

We expect to contribute $0.1 million to the postretirement health plans during 2008.

13. Comprehensive Income

The following table sets forth the components of comprehensive income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Net income	$ 8,292	$ 9,362	$ 10,353	$ 16,776
Foreign currency translation adjustment	3,833		(6,583)	
Amortization of pension and postretirement prior service costs and net gain, net of tax	67	83	134	166
Amortization of swap loss, net of tax	40	41	80	81
Comprehensive income	$ 12,232	$ 9,486	$ 3,984	$ 17,023

We expect to amortize $0.3 million of prior service costs and net gain, net of tax and $0.2 million of swap loss, net of tax from other comprehensive income into earnings during 2008.

14. Fair Value of Financial Instruments

Effective January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. In accordance with Financial Accounting Standards Board Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), we will defer the adoption of SFAS No. 157 for our nonfinancial assets and nonfinancial liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. The adoption of SFAS No. 157 did not have a material impact on our fair value measurements.

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Financial instruments held by the Company that are subject to SFAS No. 157 include foreign currency contracts held by our Canadian subsidiary, E.D. Smith. These contracts expire during 2008 and are in a liability position. The fair value of the liability at June 30, 2008 is approximately $0.3 million, which represents the amount the Company would be required to pay to exit these contracts. The fair value is based on Level 2 inputs as of June 30, 2008. Level 2 inputs are inputs other than quoted prices that are observable for an asset or liability, either directly or indirectly.

Cash and cash equivalents and accounts receivable are financial assets with carrying values that approximate fair value. Accounts payable and the Company s variable rate debt (revolving credit facility) are financial liabilities with carrying values that approximate fair value. As of June 30, 2008, the carrying value of the Company s fixed rate senior notes was $100.0 million and fair value was estimated to be $99.0 million.

15. Commitments and Contingencies

Litigation, Investigations and Audits We are party in the ordinary course of business to certain claims, litigation, audits and investigations. We believe that we have established adequate reserves to satisfy any liability we may incur in connection with any such currently pending or threatened matters. In our opinion, the settlement of any such currently pending or threatened matters is not expected to have a material adverse impact on our financial position, annual results of operations or cash flows.

16. Supplemental Cash Flow Information

Cash payments for interest were $15.2 million and $8.2 million for the six months ended June 30, 2008 and 2007, respectively. Cash payments for income taxes were $9.8 million and $3.9 million for the six months ended June 30, 2008 and 2007, respectively. As of June 30, 2008, the Company had accrued property, plant and equipment of approximately $2.3 million.

17. Foreign Currency

The Company, through its wholly owned consolidated subsidiary, E.D. Smith, enters into foreign currency contracts due to the exposure to Canadian/U.S. dollar currency fluctuations on cross border transactions. These contracts do not qualify for hedge accounting. The Company records the fair value of these contracts on the Condensed Consolidated Balance Sheets and has recorded the change in fair value through the Condensed Consolidated Statements of Income, within Other (income) expense. For the three and six months ended June 30, 2008, the Company recorded a gain on these contracts totaling approximately $0.2 million and $0.5 million, respectively.

The Company has an intercompany note denominated in Canadian dollars, which is eliminated during consolidation. A portion of the note is considered to be permanent, with the remaining portion considered to be temporary. Foreign currency fluctuations on the permanent portion are recorded through Accumulated other comprehensive loss, while foreign currency fluctuations on the temporary portion are recorded in the Company s Condensed Consolidated Statements of Income, within Other (income) expense.

The Company accrues interest on the intercompany note, which is also considered temporary. Changes in the balance due to foreign currency fluctuations are also recorded in the Company s Condensed Consolidated Statements of Income within Other (income) expense.

For the three and six months ended June 30, 2008, the Company recorded a gain of approximately $5.0 thousand and a loss of $1.9 million, respectively, related to foreign currency fluctuations within Other (income) expense. For the three and six months ended June 30, 2008, the Company recorded a gain of approximately $1.9 million and a loss of approximately $4.3 million, respectively, in Accumulated other comprehensive loss related to foreign currency fluctuations on the permanent portion of the note.

18. Business and Geographic Information and Major Customers

We manage operations on a company-wide basis, thereby making determinations as to the allocation of resources in total rather than on a segment-level basis. We have designated our reportable segments based on how management views our business. We do not segregate assets between segments for internal reporting. Therefore, asset-related information has not been presented.

During the first quarter of 2008, the Company changed its internal reporting structure from product categories to channel based. The Company s new reportable segments, as presented below, are consistent with the manner in which the Company reports its results to the chief operating decision maker.

We evaluate the performance of our segments based on net sales dollars, gross profit and direct operating income (gross profit less freight out, sales commissions and direct segment expenses). The amounts in the following tables are obtained from reports used by our senior management team and do not include allocated income taxes. There are no significant non-cash items reported in segment profit or loss other than depreciation and amortization. Restructuring charges are not allocated to our segments, as we do not include them in the measure of profitability as reviewed by our chief operating decision maker. The accounting policies of our segments are the same as those described in the summary of significant accounting policies set forth in Note 2 to our 2007 Consolidated Financial Statements contained in our Annual Report on Form 10-K.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Net sales to external customers:				
North American Retail Grocery	$ 222,880	$ 138,211	$ 442,520	$ 284,799
Food Away From Home	76,641	64,013	147,567	119,204
Industrial and Export	67,848	53,807	137,905	111,012
Total	367,369	256,031	727,992	515,015
Direct operating income:				
North American Retail Grocery	25,053	17,727	50,545	36,332
Food Away From Home	8,567	7,330	16,135	13,277
Industrial and Export	6,810	7,199	16,413	13,687
Direct operating income	40,430	32,256	83,093	63,296
Other operating expenses	20,965	13,107	51,554	28,170
Operating income	$ 19,465	$ 19,149	$ 31,539	$ 35,126

Geographic Information During the six months ended June 30, 2008, we had revenues to customers outside of the United States representing approximately 14.5% of total consolidated net sales with 14% of these sales going to Canada.

Major Customers During the six months ended June 30, 2008, Wal-Mart Stores, Inc. accounted for approximately 11.3% of our total consolidated net sales. No other customer accounted for more than 10% of our consolidated net sales.

Product Information The following table presents the Company s net sales by major products for the three and six months ended June 30, 2008 and 2007:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Products:				
Pickles	$ 92,692	$ 94,296	$ 172,013	$ 166,736
Non-dairy powdered creamer	79,832	65,642	167,287	137,456
Soup and infant feeding	66,746	61,279	144,877	147,063
Jams, jellies and other	35,731		69,145	
Salad dressing	48,918		87,995	
Refrigerated	10,284	10,124	20,601	20,150

Aseptic	20,854	21,117	41,750	40,037
Salsa	12,312	3,573	24,324	3,573
Total net sales	$ 367,369	$ 256,031	$ 727,992	$ 515,015

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

Business Overview

We believe we are the largest manufacturer of pickles and non-dairy powdered creamer in the United States, and the largest manufacturer of private label salad dressings in the United States and Canada, based upon total sales volumes. We believe we are also the leading retail supplier of private label pickles, non-dairy powdered creamer and private label soup in the United States, and jams and jellies in Canada. Effective January 1, 2008, we realigned the manner in which the business is managed and now focus on operating results based on channels of distribution, which has resulted in a change to the operating and reportable segments. Previously, we managed our business based on product categories. Our change in operating and reportable segments from product categories to channel based is consistent with management s long-term growth strategy and was necessary due to the acquisitions that occurred during 2007, adding numerous new products throughout the year. The change in operating and reportable segments will permit the Company to integrate future acquisitions more efficiently and provide our investors with greater comparability to our peer group, as many of them also present results based on channels of distribution.

We discuss the following segments in this Management s Discussion and Analysis of Financial Condition and Results of Operations: North American Retail Grocery, Food Away From Home, and Industrial and Export. The key performance indicators of our segments are net sales dollars, gross profit and direct operating margin, which is gross profit less the cost of transporting products to customer locations (referred to in the tables below as freight out), commissions paid to independent sales brokers, and direct segment expenses.

Our current operations consist of the following:

Our North American Retail Grocery segment sells branded and private label products to customers within the United States and Canada. These products include pickles, peppers, relishes, salsas, condensed and ready to serve soup, broths, gravies, jams, jellies, salad dressings, sauces, non-dairy powdered creamer, aseptic products, and baby food. Brand names sold within the North American Retail Grocery segment include the following pickle brands, *Farman s®, Nalley s®, Peter Piper®, and Steinfeld®*. Also sold are brands related to sauces and syrups, *Bennet s®, Hoffman House®, Roddenbery s Northwoods® and San Antonio Farms®*. Infant feeding products are sold under the *Nature s Goodness ®* brand, while our non-dairy powdered creamer is sold under our proprietary *Cremora®* brand. Our refrigerated products are sold under the *Mocha Mix®, Second Nature®* brand names, and our jams, jellies and other sauces are sold under the *E.D. Smith®, Habitant® and Saucemaker®* brand names.

Our Food Away From Home segment sells pickle products, non-dairy powdered creamers, salsas, aseptic and refrigerated products, and sauces to food service customers, including restaurant chains and food distribution companies, within the United States and Canada.

Our Industrial and Export segment includes the Company s co-pack business and non-dairy powdered creamer sales to industrial customers for use in industrial applications, including for repackaging in portion control packages and for use as an ingredient by other food manufacturers. Export sales are primarily to industrial customers.

Recent Developments

The Company continues to experience increased commodity and input costs in excess of levels previously expected. While these times are challenging, the Company remains diligent in its efforts to manage controllable costs and go to market with fact based selling techniques that permit the Company to increase prices to reflect increased input costs. However, due to the timing of when costs rise versus when prices are increased, the Company may at times be unable to recoup a portion of the increased input costs. Failure to increase prices in a timely manner will result in reduced margins.

On February 13, 2008, the Company announced plans to close its Portland pickle processing plant. Operations in the plant have ceased effective June 6, 2008, with the restructuring plans expected to be completed by the end of the third quarter of 2008. For the six months ended June 30, 2008, the Company recorded approximately $11.4 million of costs, associated with the facility closing. Included in these costs was a fixed asset impairment charge of approximately

$5.2 million to reduce the carrying value of the Portland facilities to their net realizable value. Total costs are expected to be approximately $15.0 million, $9.0 million of which is expected to be in cash, net of estimated proceeds from sale of assets.

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On February 19, 2008, the Company s New Hampton facility, which produces a portion of the Company s non-dairy powdered creamer, was damaged by an early morning fire. The Company has an insurance policy that will cover the costs to repair the facility, replace damaged equipment, and reimburse the Company for costs incurred in excess of those it would normally have incurred, subject to a $0.5 million deductible. While the New Hampton fire has temporarily reduced our manufacturing capacity, the Company has continued to meet our customers needs, while providing the same high quality products they have come to expect from the Company.

Results of Operations

The following table presents certain information concerning our financial results, including information presented as a percentage of net sales:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2008		2007		2008		2007	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
					(Dollars in thousands)			
Net sales	$ 367,369	100.0%	$ 256,031	100.0%	$ 727,992	100.0%	$ 515,015	100.0%
Cost of sales	298,740	81.3	202,424	79.1	588,974	80.9	409,319	79.5
Gross profit	68,629	18.7	53,607	20.9	139,018	19.1	105,696	20.5
Operating expenses:								
Selling and distribution	28,948	7.9	21,483	8.4	57,612	7.9	42,949	8.3
General and administrative	15,760	4.3	12,096	4.7	31,002	4.3	25,622	5.0
Other operating expense (income) net	928	0.2	(365)	(0.1)	11,850	1.6	(311)	(0.1)
Amortization expense	3,528	1.0	1,244	0.5	7,015	1.0	2,310	0.5
Total operating expenses	49,164	13.4	34,458	13.5	107,479	14.8	70,570	13.7
Operating income	$ 19,465	5.3%	$ 19,149	7.4%	$ 31,539	4.3%	$ 35,126	6.8%

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Net Sales Second quarter net sales increased 43.5% to $367.4 million in 2008, compared to $256.0 million in the second quarter of 2007. Net sales by segment are shown in the following table:

	Net Sales			
	2008	2007	$ Increase/ (Decrease)	% Increase/ (Decrease)
	(Dollars in thousands)			
North American Retail Grocery	$ 222,880	$ 138,211	$ 84,669	61.3%
Food Away From Home	76,641	64,013	12,628	19.7%
Industrial and Export	67,848	53,807	14,041	26.1%

Total	$ 367,369	$ 256,031	$ 111,338	43.5%

The increase in sales is primarily due to the 2007 acquisitions of the E.D. Smith salad dressing, jam, jelly and sauce business (E.D. Smith), the San Antonio Farms Mexican sauce business (San Antonio Farms) and DeGraffenreid, LLC pickle business (DeGraffenreid) as well as price increases taken to offset rising input costs.

Cost of Sales All expenses incurred to bring a product to completion are included in cost of sales. These costs include raw materials, ingredient and packaging costs, labor costs, facility and equipment costs, including costs to operate and maintain our warehouses, and costs associated with transporting our finished products from our manufacturing facilities to our own distribution centers. Cost of sales as a percentage of net sales was 81.3% in the second quarter of 2008 compared to 79.1% in 2007. Price increases taken in 2008, as well as cost reduction initiatives, only partially offset the rising cost of raw materials and packaging. We continue to experience increases in commodity costs in such items as casein, corn syrup, and soybean oil compared to the second quarter of 2007. Increases in raw material costs in the second quarter of 2008 compared to 2007 included a 50% increase in casein, 11% increase in corn syrup and other sweeteners, 50% increase in soybean oil and other oils and a 7% increase in cucumber crop costs. Packaging cost increases include a 13% increase in glass packaging and a 19% increase in plastic containers. The Company does not expect relief from increasing costs in the near term.

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Operating Expenses Our operating expenses were $49.2 million during the second quarter of 2008 compared to $34.5 million in 2007. Selling and distribution expenses increased $7.5 million or 34.7% in the second quarter of 2008 compared to the second quarter of 2007 due to the San Antonio Farms acquisition in May, 2007 and E.D. Smith in October, 2007. General and administrative expenses increased $3.7 million in the second quarter of 2008 compared to 2007, primarily due to the Canadian infrastructure added as a result of the E.D. Smith acquisition in October, 2007. While operating costs increased compared to 2007, total operating costs as a percentage of net sales was consistent with 2007. During the second quarter of 2008 and 2007, operating expenses as a percentage of net sales was 13.4% and 13.5%, respectively, as the continued leveraging of selling and distribution and general and administrative expenses were partially offset by higher amortization expense.

Other operating expense of $0.9 million is related to the closure of the Portland, Oregon pickle plant.

Operating Income Operating income for the second quarter of 2008 was $19.5 million, an increase of $0.3 million, or 1.7%, from operating income of $19.1 million in the second quarter of 2007. Our operating margin was 5.3% in the second quarter of 2008 compared to 7.4% in the prior year s quarter, reflecting the higher input costs.

Income Taxes Income tax expense was recorded at an effective rate of 30.2% in the second quarter of 2008 compared to 38.2% in the prior year s quarter. The lower effective tax rate in 2008 is due to the favorable intercompany financing structure entered into in conjunction with the E.D. Smith acquisition. (See Note 4)

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007 Results by Segment

North American Retail Grocery

	Three Months Ended June 30,			
	2008		2007	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			