

TreeHouse Foods, Inc.  
Form 10-Q  
November 04, 2011  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934  
For the Quarterly Period Ended September 30, 2011.**

or

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

**Commission File Number 001-32504**

**TreeHouse Foods, Inc.**

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

**Delaware**  
(State or other jurisdiction of incorporation or organization)

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

**2021 Spring Road, Suite 600**

**Oak Brook, IL**  
(Address of principal executive offices)

**60523**  
(Zip Code)

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

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

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

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.

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Large accelerated filer  Accelerated filer  ..

Non-accelerated filer  Smaller reporting Company  ..

(Do not check if a smaller reporting company)

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

Yes  No

Number of shares of Common Stock, \$0.01 par value, outstanding as of October 21, 2011: 35,910,797

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

(In thousands, except per share data)

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
|   | (Unaudited)           |                      |
| <b>Assets</b>   |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents   | \$ 3,080              | \$ 6,323             |
| Receivables, net  | 147,938               | 126,644              |
| Inventories, net  | 367,446               | 287,395              |
| Deferred income taxes   | 992                   | 3,499                |
| Prepaid expenses and other current assets   | 14,872                | 12,861               |
| Assets held for sale  | 4,081                 | 4,081                |
| <b>Total current assets</b>   | <b>538,409</b>        | <b>440,803</b>       |
| Property, plant and equipment, net  | 400,419               | 386,191              |
| Goodwill, net   | 1,069,856             | 1,076,321            |
| Intangible assets, net  | 443,633               | 463,617              |
| Other assets, net   | 23,743                | 24,316               |
| <b>Total assets</b>   | <b>\$ 2,476,060</b>   | <b>\$ 2,391,248</b>  |
| <b>Liabilities and Stockholders' Equity</b>   |                       |                      |
| Current liabilities:  |                       |                      |
| Accounts payable and accrued expenses   | \$ 201,978            | \$ 202,384           |
| Current portion of long-term debt   | 2,241                 | 976                  |
| <b>Total current liabilities</b>  | <b>204,219</b>        | <b>203,360</b>       |
| Long-term debt  | 990,474               | 976,452              |
| Deferred income taxes   | 197,496               | 194,917              |
| Other long-term liabilities   | 43,261                | 38,553               |
| <b>Total liabilities</b>  | <b>1,435,450</b>      | <b>1,413,282</b>     |
| Commitments and contingencies (Note 17)   |                       |                      |
| Stockholders' equity:   |                       |                      |
| Preferred stock, par value \$0.01 per share, 10,000 shares authorized, none issued  |                       |                      |
| Common stock, par value \$0.01 per share, 90,000 shares authorized, 35,904 and 35,440 shares issued and outstanding, respectively | 359                   | 354                  |
| Additional paid-in capital  | 711,388               | 703,465              |
| Retained earnings   | 350,723               | 286,181              |
| Accumulated other comprehensive loss  | (21,860)              | (12,034)             |
| <b>Total stockholders' equity</b>   | <b>1,040,610</b>      | <b>977,966</b>       |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 2,476,060</b>   | <b>\$ 2,391,248</b>  |

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See Notes to Condensed Consolidated Financial Statements.

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

(In thousands, except per share data)

|                                   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |              |
|-----------------------------------|-------------------------------------|------------|------------------------------------|--------------|
|                                   | 2011<br>(Unaudited)                 | 2010       | 2011<br>(Unaudited)                | 2010         |
| Net sales                         | \$ 528,050                          | \$ 464,242 | \$ 1,514,183                       | \$ 1,307,561 |
| Cost of sales                     | 402,518                             | 354,005    | 1,158,285                          | 1,002,396    |
| Gross profit                      | 125,532                             | 110,237    | 355,898                            | 305,165      |
| Operating expenses:               |                                     |            |                                    |              |
| Selling and distribution          | 34,932                              | 28,740     | 106,750                            | 86,423       |
| General and administrative        | 27,376                              | 25,561     | 87,221                             | 79,123       |
| Other operating expense, net      | 1,733                               | 1,103      | 5,731                              | 861          |
| Amortization expense              | 8,839                               | 7,040      | 25,207                             | 18,774       |
| Total operating expenses          | 72,880                              | 62,444     | 224,909                            | 185,181      |
| Operating income                  | 52,652                              | 47,793     | 130,989                            | 119,984      |
| Other expense (income):           |                                     |            |                                    |              |
| Interest expense, net             | 12,610                              | 12,867     | 39,931                             | 31,473       |
| Gain on foreign currency exchange | (5,620)                             | (46)       | (5,065)                            | (2,116)      |
| Other expense (income), net       | 547                                 | (1,838)    | (170)                              | (3,044)      |
| Total other expense               | 7,537                               | 10,983     | 34,696                             | 26,313       |
| Income before income taxes        | 45,115                              | 36,810     | 96,293                             | 93,671       |
| Income taxes                      | 14,725                              | 11,943     | 31,750                             | 30,833       |
| Net income                        | \$ 30,390                           | \$ 24,867  | \$ 64,543                          | \$ 62,838    |
| Weighted average common shares:   |                                     |            |                                    |              |
| Basic                             | 35,967                              | 35,421     | 35,721                             | 34,870       |
| Diluted                           | 36,911                              | 36,373     | 36,894                             | 35,935       |
| Net earnings per common share:    |                                     |            |                                    |              |
| Basic                             | \$ .84                              | \$ .70     | \$ 1.81                            | \$ 1.80      |
| Diluted                           | \$ .82                              | \$ .68     | \$ 1.75                            | \$ 1.75      |

See Notes to Condensed Consolidated Financial Statements.

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

(In thousands)

|   | Nine Months Ended<br>September 30,<br>2011                      2010<br>(Unaudited) |           |
|---|---|-----------|
| <b>Cash flows from operating activities:</b>                                      |   |           |
| Net income  | \$ 64,543   | \$ 62,838 |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |           |
| Depreciation  | 36,473  | 31,868    |
| Amortization  | 25,207  | 18,774    |
| (Gain) loss on foreign currency exchange  | (274)   | 1,012     |
| Mark to market adjustment on derivative contracts                                 | (1,742)   | (3,176)   |
| Excess tax (benefits) deficiency from stock-based compensation                    | (3,888)   | 440       |
| Stock-based compensation  | 12,573  | 11,817    |
| Loss on disposition of assets, net  | 663   | 2,552     |
| Write-down of tangible assets   | 2,891   |           |
| Deferred income taxes   | 5,303   | 7,918     |
| Curtailed of postretirement benefit obligation                                    |   | (2,357)   |
| Other   | 121   | 121       |
| Changes in operating assets and liabilities, net of acquisitions:                 |   |           |
| Receivables   | (23,806)  | 2,244     |
| Inventories   | (81,540)  | 459       |
| Prepaid expenses and other assets   | 2,447   | (4,592)   |
| Accounts payable, accrued expenses and other liabilities                          | 11,908  | 20,734    |
| Net cash provided by operating activities   | 50,879  | 150,652   |
| <b>Cash flows from investing activities:</b>                                      |   |           |
| Additions to property, plant and equipment  | (52,817)  | (30,477)  |
| Additions to other intangible assets  | (7,615)   | (16,788)  |
| Acquisition of business, net of cash acquired                                     | 3,243   | (664,655) |
| Proceeds from sale of fixed assets  | 233   | 16        |
| Net cash used in investing activities   | (56,956)  | (711,904) |
| <b>Cash flows from financing activities:</b>                                      |   |           |
| Proceeds from issuance of debt  |   | 400,000   |
| Borrowings under revolving credit facility  | 225,600   | 324,600   |
| Payments under revolving credit facility  | (213,900)   | (251,300) |
| Payments on capitalized lease obligations   | (961)   | (836)     |
| Proceeds from issuance of common stock, net of expenses                           |   | 110,688   |
| Payment of deferred financing costs   | (1,518)   | (10,783)  |
| Net payments related to stock-based award activities                              | (8,672)   | (11,728)  |
| Excess tax benefits (deficiency) from stock-based compensation                    | 3,888   | (440)     |
| Net cash provided by financing activities   | 4,437   | 560,201   |
| Effect of exchange rate changes on cash and cash equivalents                      | (1,603)   | 92        |
| Net decrease in cash and cash equivalents   | (3,243)   | (959)     |
| Cash and cash equivalents, beginning of period                                    | 6,323   | 4,415     |

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|  |    |       |    |       |
|--|----|-------|----|-------|
| Cash and cash equivalents, end of period | \$ | 3,080 | \$ | 3,456 |
|--|----|-------|----|-------|

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, 2011**

**(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. Certain product sales, as disclosed in Note 20, from prior year have been reclassified and certain line items on the Condensed Consolidated Statements of Cash Flows for the prior year have been combined to conform to the current period presentation. These reclassifications had no effect on reported net income, total assets, or cash flows. 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, 2010. Results of operations for interim periods are not necessarily indicative of annual results.

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

A detailed description of the Company's significant accounting policies can be found in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

**2. Recent Accounting Pronouncements**

On September 21, 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-09, *Employer's Participation in Multiemployer Plans* which increases the quantitative and qualitative disclosures an employer is required to provide about its participation in significant multiemployer plans that offer pension and other postretirement benefits. This ASU does not change current accounting and thus the Company does not believe this ASU will have a significant impact on the Company's financial statements. This ASU is effective for fiscal years ended on or after December 15, 2011.

On September 15, 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment* which provides entities the option of performing a qualitative assessment of goodwill before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If an entity determines, based on the qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. This ASU is effective for annual and interim periods for fiscal years beginning after December 15, 2011. Early adoption is permitted. This literature does not change how goodwill is accounted for, and thus the Company does not believe this ASU will have a significant impact on the Company's financial statements.

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

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

**3. Facility Closings**

On February 28, 2011, the Company announced plans to close its pickle plant in Springfield, Missouri. Production ceased in August 2011 and has been transferred to other pickle facilities. Full plant closure is expected to occur by December 31, 2011. For the three

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and nine months ended September 30, 2011, the Company recorded costs of \$1.4 million and \$4.6 million, respectively. For the three months ended September 30, 2011, costs consisted of \$0.4 million for severance and other costs, \$0.1 million for fixed asset impairments and \$0.9 million for disposal costs. For the nine months ended September 30, 2011, costs relating to this closure consisted of a fixed asset impairment charge of \$2.4 million to reduce the carrying value of the facility to net realizable value, \$0.6 million for severance and other costs, and \$1.6 million for disposal costs. These costs are included in Other operating expense, net line in our Condensed Consolidated Statements of Income. Total costs are expected to be approximately \$5.0 million. Components of the charges include \$3.8 million for asset write-offs and removal of certain manufacturing equipment, \$0.8 million in severance and other charges, and \$0.4 million in costs to transfer inventory to other manufacturing facilities. The Company estimates that approximately \$2.6 million of the charges will be in cash and incurred in 2011. The Company has accrued severance costs of approximately \$0.3 million as of September 30, 2011 consisting of expense of \$0.4 million less payments of \$0.1 million.

**Table of Contents****4. Acquisitions**

On October 28, 2010, the Company acquired S.T. Specialty Foods, Inc (S.T. Foods), a wholly owned subsidiary of STSF Holdings, Inc. (Holdings) by acquiring all of the outstanding securities of Holdings for approximately \$180 million in cash. The acquisition was funded by the Company's revolving credit facility. S.T. Foods, has annual net sales of approximately \$100 million and is a manufacturer of private label macaroni and cheese, skillet dinners and other value-added side dishes. The acquisition added additional categories to our product portfolio for the retail grocery channel.

The Company's purchase price allocation as set forth in the Company's Annual Report of Form 10-K for the fiscal year ended December 31, 2010 was preliminary and subject to tax adjustments that were finalized during the third quarter of 2011.

On March 2, 2010, the Company acquired Sturm Foods, Inc. (Sturm), a private label manufacturer of hot cereals and powdered soft drink mixes that services retail and foodservice customers in the United States. The acquisition of Sturm has strengthened the Company's presence in private label dry grocery categories.

**5. Inventories**

|                            | September 30,<br>2011 | December 31,<br>2010 |
|----------------------------|-----------------------|----------------------|
|                            | (In thousands)        |                      |
| Raw materials and supplies | \$ 121,497            | \$ 111,376           |
| Finished goods             | 264,276               | 194,558              |
| LIFO reserve               | (18,327)              | (18,539)             |
| Total                      | \$ 367,446            | \$ 287,395           |

Approximately \$101.6 million and \$84.8 million of our inventory was accounted for under the LIFO method of accounting at September 30, 2011 and December 31, 2010, respectively.

**6. Property, Plant and Equipment**

|                                    | September 30,<br>2011 | December 31,<br>2010 |
|------------------------------------|-----------------------|----------------------|
|                                    | (In thousands)        |                      |
| Land                               | \$ 18,626             | \$ 15,851            |
| Buildings and improvements         | 150,185               | 148,616              |
| Machinery and equipment            | 411,404               | 390,907              |
| Construction in progress           | 43,143                | 21,067               |
| Total                              | 623,358               | 576,441              |
| Less accumulated depreciation      | (222,939)             | (190,250)            |
| Property, plant and equipment, net | \$ 400,419            | \$ 386,191           |

**7. Goodwill and Intangible Assets**

Changes in the carrying amount of goodwill for the nine months ended September 30, 2011 are as follows:

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|                               | North American<br>Retail Grocery | Food Away<br>From Home<br>(In thousands) | Industrial<br>and Export | Total        |
|-------------------------------|----------------------------------|--|--------------------------|--------------|
| Balance at December 31, 2010  | \$ 850,593                       | \$ 92,146                                | \$ 133,582               | \$ 1,076,321 |
| Currency exchange adjustment  | (3,357)                          | (230)                                    |                          | (3,587)      |
| Purchase price adjustment     | (2,869)                          | (9)                                      |                          | (2,878)      |
| Balance at September 30, 2011 | \$ 844,367                       | \$ 91,907                                | \$ 133,582               | \$ 1,069,856 |

Purchase price adjustments are related to working capital, tax and other adjustments for the Sturm and S.T. Foods acquisitions. The Company has not incurred any goodwill impairments since its inception.

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

The gross carrying amount and accumulated amortization of intangible assets other than goodwill as of September 30, 2011 and December 31, 2010 are as follows:

|  | September 30, 2011    |                          |                     | December 31, 2010     |                          |                     |
|--|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|  | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| (In thousands)                           |                       |                          |                     |                       |                          |                     |
| Intangible assets with indefinite lives: |                       |                          |                     |                       |                          |                     |
| Trademarks                               | \$ 31,827             | \$                       | \$ 31,827           | \$ 32,673             | \$                       | \$ 32,673           |
| Intangible assets with finite lives:     |                       |                          |                     |                       |                          |                     |
| Customer-related                         | 443,690               | (75,675)                 | 368,015             | 445,578               | (57,480)                 | 388,098             |
| Non-compete agreement                    | 1,000                 | (1,000)                  |                     | 1,000                 | (967)                    | 33                  |
| Trademarks                               | 20,010                | (4,287)                  | 15,723              | 20,010                | (3,393)                  | 16,617              |
| Formulas/recipes                         | 6,782                 | (2,953)                  | 3,829               | 6,825                 | (1,972)                  | 4,853               |
| Computer software                        | 33,253                | (9,014)                  | 24,239              | 26,007                | (4,664)                  | 21,343              |
| <b>Total</b>                             | <b>\$ 536,562</b>     | <b>\$ (92,929)</b>       | <b>\$ 443,633</b>   | <b>\$ 532,093</b>     | <b>\$ (68,476)</b>       | <b>\$ 463,617</b>   |

Amortization expense on intangible assets for the three months ended September 30, 2011 and 2010 was \$8.8 million and \$7.0 million, respectively, and \$25.2 million and \$18.8 million for the nine months ended September 30, 2011 and 2010, respectively. Estimated amortization expense on intangible assets for 2011 and the next four years is as follows:

|      | (In thousands) |
|------|----------------|
| 2011 | \$ 33,768      |
| 2012 | \$ 32,081      |
| 2013 | \$ 30,744      |
| 2014 | \$ 30,503      |
| 2015 | \$ 29,563      |

**8. Accounts Payable and Accrued Expenses**

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Accounts payable   | \$ 140,690            | \$ 112,638           |
| Payroll and benefits   | 23,150                | 33,730               |
| Interest and taxes   | 16,549                | 21,019               |
| Health insurance, workers compensation and other insurance costs | 5,938                 | 4,855                |
| Marketing expenses   | 6,121                 | 10,165               |
| Other accrued liabilities  | 9,530                 | 19,977               |
| <b>Total</b>   | <b>\$ 201,978</b>     | <b>\$ 202,384</b>    |

**9. Income Taxes**

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Income tax expense was recorded at an effective rate of 32.6% and 33.0% for the three and nine months ended September 30, 2011, respectively, compared to 32.4% and 32.9% for the three and nine months ended September 30, 2010, respectively. The Company's effective tax rate is favorably impacted by an intercompany financing structure with its Canadian subsidiary E.D. Smith.

As of September 30, 2011, the Company does not believe that its gross recorded unrecognized tax benefits will materially change within the next 12 months.

The Company or one of its subsidiaries files income tax returns in the U.S., Canada and various state jurisdictions. The Company has various state tax examinations in process, which are expected to be completed in 2011 or 2012. The outcome of the various state tax examinations is unknown at this time.

**Table of Contents****TREEHOUSE FOODS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Long-Term Debt**

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Revolving credit facility              | \$ 484,300            | \$ 472,600           |
| High yield notes                       | 400,000               | 400,000              |
| Senior notes                           | 100,000               | 100,000              |
| Tax increment financing and other debt | 8,415                 | 4,828                |
| <b>Total debt outstanding</b>          | <b>992,715</b>        | <b>977,428</b>       |
| Less current portion                   | (2,241)               | (976)                |
| <b>Total long-term debt</b>            | <b>\$ 990,474</b>     | <b>\$ 976,452</b>    |

**Revolving Credit Facility** On September 23, 2011, the Company entered into Amendment No.1 ( Amendment ) to the Amended and Restated Credit Agreement ( Credit Agreement ) with Bank of America, N.A., as administrative agent, and the group of other participating lenders. The amendment, among other things, extends the maturity of the revolving credit facility to September 23, 2016, and adjusts the interest rates. The interest rates under the Credit Agreement are based on the Company's consolidated leverage ratio, and are determined by either LIBOR plus a margin ranging from 1.00% to 1.60% or a base rate (as defined in the Credit Agreement) plus a margin ranging from 0.00% to 0.60%. In addition, a facility fee ranging from 0.25% to 0.40% is due quarterly on the aggregate commitment under the revolving credit facility. The Company's unsecured revolving credit facility has an aggregate commitment of \$750 million, of which \$256.5 million was available as of September 30, 2011. As of September 30, 2011, there were \$9.2 million in letters of credit under the revolving credit facility that were issued but undrawn. The 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, 2011. The Company's average interest rate on debt outstanding under the revolving credit facility for the three and nine months ended September 30, 2011 was 2.09% and 2.14%, respectively.

**High Yield Notes** The Company's 7.75% high yield notes in aggregate principal amount of \$400 million are due March 1, 2018 (the Notes ). The Notes are guaranteed by the Company's wholly owned subsidiaries Bay Valley Foods, LLC; EDS Holdings, LLC; Sturm Foods, Inc.; STSF Holdings, Inc. and S.T. Specialty Foods, Inc. and certain other of our subsidiaries that may become guarantors from time to time in accordance with the applicable Indenture and may fully, jointly, severally and unconditionally guarantee our payment obligations under any series of debt securities offered. The Indenture governing the Notes provides, among other things, that the Notes will be senior unsecured obligations of the Company. The Indenture contains various restrictive covenants of which the Company is in compliance as of September 30, 2011.

**Senior Notes** The Company has outstanding \$100 million in aggregate principal of 6.03% senior notes due September 30, 2013, issued in a private placement pursuant to a Note Purchase Agreement among the Company and a group of purchasers. The Note Purchase Agreement contains covenants that will limit the ability of the Company and its subsidiaries to, among other things, merge with other entities, change the nature of the business, create liens, incur additional indebtedness or sell assets. The Note Purchase Agreement also requires the Company to maintain certain financial ratios. The Company is in compliance with the applicable covenants as of September 30, 2011.

**Tax Increment Financing** The Company owes \$2.3 million related to redevelopment bonds pursuant to a Tax Increment Financing Plan and has agreed to make certain payments with respect to the principal amount of the bonds through May 2019.

**11. Earnings Per Share**

Basic earnings per share is computed by dividing net income by the number of weighted average common shares outstanding during the reporting period. The weighted average number of common shares used in the diluted earnings per share calculation is determined using the



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treasury stock method and includes the incremental effect related to outstanding stock options, restricted stock, restricted stock units and performance units.

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

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<br>September 30, |                        | Nine Months Ended<br>September 30, |                        |
|--|-------------------------------------|------------------------|------------------------------------|------------------------|
|  | 2011<br>(In thousands)              | 2010<br>(In thousands) | 2011<br>(In thousands)             | 2010<br>(In thousands) |
| Weighted average common shares outstanding         | 35,967                              | 35,421                 | 35,721                             | 34,870                 |
| Assumed exercise/vesting of equity awards (1)      | 944                                 | 952                    | 1,173                              | 1,065                  |
| Weighted average diluted common shares outstanding | 36,911                              | 36,373                 | 36,894                             | 35,935                 |

- (1) Incremental shares from stock options, restricted stock, restricted stock units, and performance units are computed by the treasury stock method. Stock options, restricted stock, restricted stock units, and performance units excluded from our computation of diluted earnings per share because they were anti-dilutive, were 110.2 thousand and 240.7 thousand for the three and nine months ended September 30, 2011, respectively, and 132.9 thousand and 132.8 thousand for the three and nine months ended September 30, 2010, respectively.

**12. Stock-Based Compensation**

Income before income taxes for the three and nine month periods ended September 30, 2011 and 2010 includes share-based compensation expense of \$3.1 million, \$12.6 million, \$4.0 million and \$11.8 million, respectively. The tax benefit recognized related to the compensation cost of these share-based awards was approximately \$1.2 million, \$4.9 million, \$1.5 million and \$4.6 million for the three and nine month periods ended September 30, 2011 and 2010, respectively.

The following table summarizes stock option activity during the nine months ended September 30, 2011. Stock options are granted under our long-term incentive plan, and have a three year vesting schedule, which vest one-third on each of the first three anniversaries of the grant date. Stock options expire ten years from the grant date.

|  | Employee<br>Options<br>(In thousands) | Director<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (yrs) | Aggregate<br>Intrinsic<br>Value<br>(In thousands) |
|--|---------------------------------------|---------------------|--|---|---|
| Outstanding, December 31, 2010                 | 2,257                                 | 95                  | \$ 28.38                                 | 5.6   | \$ 53,401   |
| Granted  | 110                                   |                     | \$ 54.90                                 |   |   |
| Forfeited                                      |                                       |                     | \$                                       |   |   |
| Exercised                                      | (108)                                 |                     | \$ 25.86                                 |   |   |
| Outstanding, September 30, 2011                | 2,259                                 | 95                  | \$ 29.74                                 | 5.1   | \$ 75,567   |
| Vested/expected to vest, at September 30, 2011 | 2,253                                 | 95                  | \$ 29.68                                 | 5.0   | \$ 75,509   |
| Exercisable, September 30, 2011                | 2,062                                 | 95                  | \$ 27.78                                 | 4.7   | \$ 73,466   |

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Compensation costs related to unvested options totaled \$3.4 million at September 30, 2011 and will be recognized over the remaining vesting period of the grants, which averages 2.3 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 2011 include the following: expected volatility of 33.35%, expected term of six years, risk free rate of 2.57% and no dividends. The average grant date fair value of stock options granted in the nine months ended September 30, 2011 was \$20.36. The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2011 was approximately \$3.1 million.

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## TREEHOUSE FOODS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition to stock options, the Company also grants restricted stock, restricted stock units and performance unit awards. These awards are granted under our long-term incentive plan. Employee restricted stock and restricted stock unit awards generally vest based on the passage of time. These awards generally vest one-third on each anniversary of the grant date. Director restricted stock units vest over thirteen months. Certain directors have deferred receipt of their awards until their departure from the Board. A complete description of restricted stock and restricted stock unit awards is presented in the Company's annual report on Form 10-K for the year ended December 31, 2010. The following table summarizes the restricted stock and restricted stock unit activity during the nine months ended September 30, 2011:

|                                    | Employee<br>Restricted<br>Stock<br>(In thousands) | Weighted<br>Average<br>Grant Date<br>Fair Value | Employee<br>Restricted<br>Stock<br>Units<br>(In thousands) | Weighted<br>Average<br>Grant Date<br>Fair Value | Director<br>Restricted<br>Stock<br>Units<br>(In thousands) | Weighted<br>Average<br>Grant Date<br>Fair Value |
|------------------------------------|---|---|--|---|--|---|
| Outstanding, at December 31, 2010  | 292   | \$ 24.32  | 420  | \$ 39.22  | 62   | \$ 32.24  |
| Granted                            |   |   | 127  | \$ 54.89  | 13   | \$ 54.90  |
| Vested                             | (275)   | \$ 24.20  | (141)  | \$ 38.12  | (4)  | \$ 46.47  |
| Forfeited                          | (1)   | \$ 25.98  | (15)   | \$ 41.03  |  |   |
| Outstanding, at September 30, 2011 | 16  | \$ 26.34  | 391  | \$ 44.65  | 71   | \$ 35.51  |

Future compensation costs related to restricted stock and restricted stock units is approximately \$13.5 million as of September 30, 2011, 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 2011 is equal to the Company's closing stock price on the grant date.

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. As of September 30, 2011, based on achievement of operating performance measures, 72,900 performance units were converted into 145,800 shares of stock. Conversion of these shares was based on attainment of at least 120% of the target performance goals, and resulted in the vesting awards being converted into two shares of stock for each performance unit. The following table summarizes the performance unit activity during the nine months ended September 30, 2011:

|                                 | Performance<br>Units<br>(In thousands) | Weighted<br>Average<br>Grant Date<br>Fair Value |
|---------------------------------|--|---|
| Unvested, at December 31, 2010  | 165                                    | \$ 30.87  |
| Granted                         | 43                                     | \$ 54.90  |
| Vested                          | (73)                                   | \$ 24.06  |
| Forfeited                       | (2)                                    | \$ 33.29  |
| Unvested, at September 30, 2011 | 133                                    | \$ 42.36  |

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Future compensation cost related to the performance units is estimated to be approximately \$4.4 million as of September 30, 2011, and is expected to be recognized over the next 2.1 years.

**Table of Contents****TREEHOUSE FOODS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Comprehensive Income**

The following table sets forth the components of comprehensive income:

|   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|-----------|------------------------------------|-----------|
|   | 2011                                | 2010      | 2011                               | 2010      |
|   | (In thousands)                      |           | (In thousands)                     |           |
| Net income  | \$ 30,390                           | \$ 24,867 | \$ 64,543                          | \$ 62,838 |
| Foreign currency translation adjustment   | (17,829)                            | 5,096     | (10,453)                           | 5,845     |
| Amortization of pension and postretirement prior service costs and net loss, net of tax | 169                                 | 158       | 507                                | 473       |
| Curtailed of postretirement plan, net of tax  |                                     |           |                                    | 862       |
| Amortization of swap loss, net of tax   | 40                                  | 40        | 120                                | 120       |
| Comprehensive income  | \$ 12,770                           | \$ 30,161 | \$ 54,717                          | \$ 70,138 |

The Company expects to amortize \$0.7 million of prior service costs and net loss, net of tax and \$0.2 million of swap loss, net of tax from other comprehensive income into earnings during 2011.

**14. Employee Retirement and Postretirement Benefits**

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

Components of net periodic pension expense are as follows:

|                                       | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |          |
|---------------------------------------|-------------------------------------|--------|------------------------------------|----------|
|                                       | 2011                                | 2010   | 2011                               | 2010     |
|                                       | (In thousands)                      |        | (In thousands)                     |          |
| Service cost                          | \$ 560                              | \$ 515 | \$ 1,680                           | \$ 1,545 |
| Interest cost                         | 560                                 | 551    | 1,680                              | 1,653    |
| Expected return on plan assets        | (592)                               | (549)  | (1,776)                            | (1,647)  |
| Amortization of unrecognized net loss | 144                                 | 124    | 432                                | 372      |
| Amortization of prior service costs   | 151                                 | 151    | 453                                | 453      |
| Net periodic pension cost             | \$ 823                              | \$ 792 | \$ 2,469                           | \$ 2,376 |

The Company contributed \$2.9 million to the pension plans in the first nine months of 2011 and expects to contribute approximately \$3.6 million in 2011.



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

Components of net periodic postretirement expenses are as follows:

|   | 0000000                   | 0000000     | 0000000                  | 0000000       |
|---|---------------------------|-------------|--------------------------|---------------|
|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |               |
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |               |
|   | <b>2011</b>               | <b>2010</b> | <b>2011</b>              | <b>2010</b>   |
|   | <b>(In thousands)</b>     |             | <b>(In thousands)</b>    |               |
| Service cost                            | \$ 9                      | \$ 18       | \$ 27                    | \$ 84         |
| Interest cost                           | 31                        | 45          | 93                       | 129           |
| Amortization of prior service credit    | (17)                      | (35)        | (52)                     | (70)          |
| Amortization of unrecognized net loss   | (3)                       | (20)        | (8)                      | (31)          |
| <b>Net periodic postretirement cost</b> | <b>\$ 20</b>              | <b>\$ 8</b> | <b>\$ 60</b>             | <b>\$ 112</b> |

The Company expects to contribute approximately \$0.2 million to the postretirement health plans during 2011.

**15. Other Operating Expense, Net**

The Company incurred Other operating expense, net for the three and nine months ended September 30, 2011 and 2010, respectively, which consisted of the following:

|   | 0000000                   | 0000000         | 0000000                  | 0000000       |
|---|---------------------------|-----------------|--------------------------|---------------|
|   | <b>Three Months Ended</b> |                 | <b>Nine Months Ended</b> |               |
|   | <b>September 30,</b>      |                 | <b>September 30,</b>     |               |
|   | <b>2011</b>               | <b>2010</b>     | <b>2011</b>              | <b>2010</b>   |
|   | <b>(In thousands)</b>     |                 | <b>(In thousands)</b>    |               |
| Facility closing costs                    | \$ 1,603                  | \$ 863          | \$ 5,668                 | \$ 1,156      |
| Gain on postretirement plan curtailment   |                           |                 |                          | (2,357)       |
| Realignment of infant feeding business    |                           | 280             |                          | 2,195         |
| Other                                     | 130                       | (40)            | 63                       | (133)         |
| <b>Total other operating expense, net</b> | <b>\$ 1,733</b>           | <b>\$ 1,103</b> | <b>\$ 5,731</b>          | <b>\$ 861</b> |

**16. Supplemental Cash Flow Information**

|  | <b>Nine Months Ended,</b> |             |
|--|---------------------------|-------------|
|  | <b>September 30,</b>      |             |
|  | <b>2011</b>               | <b>2010</b> |
|  | <b>(In thousands)</b>     |             |
| Interest paid                              | \$ 47,791                 | \$ 29,307   |
| Income taxes paid                          | \$ 20,774                 | \$ 23,444   |
| Accrued purchase of property and equipment | \$ 2,771                  | \$ 996      |
| Accrued other intangible assets            | \$ 1,406                  | \$ 1,536    |



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Non cash financing activities for the nine months ended September 30, 2011 and 2010 include the settlement of 557,860 shares and 891,005 shares, respectively, of restricted stock, restricted stock units and performance units, where shares were withheld to satisfy the minimum statutory tax withholding requirements.

### **17. 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. 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.

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**TREEHOUSE FOODS, INC.**

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

**18. Derivative Instruments**

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by derivative instruments include interest rate risk, foreign currency risk and commodity price risk.

Interest rate swaps are entered into to manage interest rate risk associated with the Company's \$750 million revolving credit facility. Interest on our credit facility is variable and use of interest rate swaps establishes a fixed rate over the term of a portion of the facility. The Company's objective in using an interest rate swap is to establish a fixed interest rate, thereby enabling the Company to predict and manage interest expense and cash flows in a more efficient and effective manner.

The Company had a \$50 million interest rate swap agreement that swapped floating rate debt for a fixed rate of 2.9% and expired August 19, 2011. The Company did not apply hedge accounting and recorded the fair value of this instrument on its Condensed Consolidated Balance Sheets. The Company recorded income of \$0.2 million, \$0.9 million, \$1.1 million and \$3.0 million related to the mark to market adjustment in the three and nine months ended September 30, 2011 and 2010, respectively, within the Other expense (income), net line of the Condensed Consolidated Statements of Income. The Company also recorded settlement losses of \$0.2 million, \$0.9 million, \$1.3 million and \$4.0 million for the three and nine months ended September 30, 2011 and 2010, respectively, within the interest expense line of Condensed Consolidated Statements of Income.

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, within the loss on foreign currency exchange line. The Company realized a gain of approximately \$1.5 million and \$1.6 million in the three and nine months ended September 30, 2011, respectively related to mark to market adjustments which we recorded in the Condensed Consolidated Statement of Income, within the Other expense (income), net line. There were no mark to market adjustments in the first nine months of 2010.

Commodity price risk is managed, in part, by using derivatives such as commodity swaps, the objective of which is to establish a fixed commodity cost over the term of the contracts.

As of September 30, 2011, the Company had three types of commodity swap contracts outstanding, diesel fuel, oil and high density polyethylene (HDPE). The Company entered into diesel fuel swap contracts on June 30, 2011 to manage the Company's risk associated with the underlying cost of diesel fuel used to deliver products. The contracts for oil and HDPE are used to manage the Company's risk associated with the underlying commodity cost of a significant component used in packaging materials.

As of September 30, 2011, the Company had 0.9 million gallons outstanding under diesel contracts, settling in the fourth quarter of 2011. As of September 30, 2011, the Company had 0.9 million pounds outstanding under the HDPE swap settling in the fourth quarter of 2011. As of September 30, 2011 the Company had 18 thousand barrels of oil outstanding under the oil swap settling in the first quarter of 2012.

The Company did not apply hedge accounting to the commodity swaps, and they are recorded at fair value on the Company's Condensed Consolidated Balance Sheets. For the three months ended September 30, 2011 and 2010, the Company realized a loss of \$0.8 million and a gain of \$0.4 million, respectively, and for the nine months ended September 30, 2011 and 2010 a loss of \$0.7 million, and a gain of \$0.2 million, respectively, related to mark to market adjustments, which are recorded in the Condensed Consolidated Statement of Income, within the Other expense (income), net line. The Company recorded settlement gains of \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2011 and a loss of \$18 thousand for the three and nine months ended September 30, 2010. Settlement gains and losses are recorded in the Condensed Consolidated Statements of Income within the Cost of sales line for the HDPE swap and the Selling and distribution line for the diesel swap.



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

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

|                               | Balance Sheet Location                    | Fair Value         |                   |
|-------------------------------|---|--------------------|-------------------|
|                               |   | September 30, 2011 | December 31, 2010 |
|                               |   | (In thousands)     |                   |
| <b>Asset Derivatives:</b>     |   |                    |                   |
| Commodity contracts           | Prepaid expenses and other current assets | \$ 85              | \$ 360            |
| Foreign exchange contracts    | Prepaid expenses and other current assets | 1,405              |                   |
|                               |   | \$ 1,490           | \$ 360            |
| <b>Liability Derivatives:</b> |   |                    |                   |
| Commodity contracts           | Accounts payable and accrued expenses     | \$ 446             | \$                |
| Interest rate swap            | Accounts payable and accrued expenses     |                    | 874               |
| Foreign exchange contract     | Accounts payable and accrued expenses     |                    | 184               |
|                               |   | \$ 446             | \$ 1,058          |

**19. Fair Value of Financial Instruments**

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. As of September 30, 2011, the outstanding balance of the Company's variable rate debt (revolving credit facility) was \$484.3 million, the fair value of which is estimated to be \$487.7 million, using a present value technique and market based interest rates and credit spreads. As of September 30, 2011, the carrying value of the Company's fixed rate senior notes was \$100.0 million and fair value was estimated to be \$98.7 million based on a present value technique using market based interest rates and credit spreads. The fair value of the Company's 7.75% high yield notes, with an outstanding balance of \$400.0 million as of September 30, 2011, was estimated at \$419.0 million, based on quoted market prices.

The fair value of the Company's commodity contracts as described in Note 18 was a net liability of approximately \$0.4 million as of September 30, 2011. The fair value of the commodity contracts were determined using Level 2 inputs. Level 2 inputs are inputs other than quoted prices that are observable for an asset or liability, either directly or indirectly.

The fair value of the Company's foreign exchange contracts as described in Note 18 was an asset of \$1.4 million as of September 30, 2011, using Level 2 inputs, comparing the foreign exchange rate of our contracts to the spot rate as of September 30, 2011.

**20. Segment Information**

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.

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The Company evaluates the performance of its segments based on net sales dollars, gross profit 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 allocated income taxes. Other expenses not allocated include unallocated selling and distribution expenses and corporate expenses which consist of general and administrative expenses, amortization expense, other operating (income) expense, and other expense (income). The accounting policies of the Company's segments are the same as those described in the summary of significant accounting policies set forth in Note 1 to our 2010 Consolidated Financial Statements contained in our Annual Report on Form 10-K.

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

|   | Three Months Ended<br>September 30, |                   | Nine Months Ended<br>September 30, |                     |
|---|-------------------------------------|-------------------|------------------------------------|---------------------|
|   | 2011                                | 2010              | 2011                               | 2010                |
|   | (In thousands)                      |                   | (In thousands)                     |                     |
| Net sales to external customers:              |                                     |                   |                                    |                     |
| North American Retail Grocery                 | \$ 369,547                          | \$ 319,174        | \$ 1,073,874                       | \$ 888,254          |
| Food Away From Home                           | 79,454                              | 83,330            | 232,857                            | 237,099             |
| Industrial and Export                         | 79,049                              | 61,738            | 207,452                            | 182,208             |
| <b>Total</b>                                  | <b>\$ 528,050</b>                   | <b>\$ 464,242</b> | <b>\$ 1,514,183</b>                | <b>\$ 1,307,561</b> |
| Direct operating income:                      |                                     |                   |                                    |                     |
| North American Retail Grocery                 | \$ 64,706                           | \$ 60,863         | \$ 181,799                         | \$ 154,955          |
| Food Away From Home                           | 13,555                              | 12,775            | 33,903                             | 34,917              |
| Industrial and Export                         | 13,511                              | 8,663             | 37,088                             | 31,658              |
| <b>Total</b>                                  | <b>91,772</b>                       | <b>82,301</b>     | <b>252,790</b>                     | <b>221,530</b>      |
| Unallocated selling and distribution expenses | (1,172)                             | (804)             | (3,642)                            | (2,788)             |
| Unallocated corporate expense                 | (37,948)                            | (33,704)          | (118,159)                          | (98,758)            |
| <b>Operating income</b>                       | <b>52,652</b>                       | <b>47,793</b>     | <b>130,989</b>                     | <b>119,984</b>      |
| Other expense                                 | (7,537)                             | (10,983)          | (34,696)                           | (26,313)            |
| <b>Income before income taxes</b>             | <b>\$ 45,115</b>                    | <b>\$ 36,810</b>  | <b>\$ 96,293</b>                   | <b>\$ 93,671</b>    |

*Geographic Information* The Company had revenues to customers outside of the United States of approximately 13.7% and 13.8% of total consolidated net sales in the nine months ended September 30, 2011 and 2010, respectively, with 12.1% and 13.0% going to Canada, respectively.

*Major Customers* Wal-Mart Stores, Inc. and affiliates accounted for approximately 18.9% and 18.7% of consolidated net sales in the nine months ended September 30, 2011 and 2010, respectively. No other customer accounted for more than 10% of our consolidated net sales.

*Product Information* The following table presents the Company's net sales by major products for the three and nine months ended September 30, 2011 and 2010. Certain product sales for 2010 have been reclassified to conform to the current period presentation due to enhanced information reporting available with the new enterprise resource planning ( ERP ) software system.

|                          | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                          | 2011                                | 2010      | 2011                               | 2010       |
|                          | (In thousands)                      |           | (In thousands)                     |            |
| Products:                |                                     |           |                                    |            |
| Non-dairy creamer        | \$ 101,179                          | \$ 70,629 | \$ 257,581                         | \$ 223,242 |
| Pickles                  | 73,236                              | 78,601    | 231,372                            | 244,357    |
| Soup and infant feeding  | 73,127                              | 85,789    | 205,620                            | 222,918    |
| Salad dressing           | 57,504                              | 49,447    | 170,154                            | 156,929    |
| Powdered drinks          | 55,107                              | 54,689    | 168,913                            | 121,069    |
| Mexican and other sauces | 48,432                              | 47,037    | 148,111                            | 144,453    |

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|                  |            |            |              |              |
|------------------|------------|------------|--------------|--------------|
| Hot cereals      | 35,736     | 31,415     | 107,461      | 66,336       |
| Dry dinners      | 32,767     |            | 85,569       |              |
| Aseptic products | 24,509     | 22,550     | 69,528       | 52,610       |
| Jams             | 17,118     | 15,151     | 52,422       | 58,768       |
| Other products   | 9,335      | 8,934      | 17,452       | 16,879       |
| Total net sales  | \$ 528,050 | \$ 464,242 | \$ 1,514,183 | \$ 1,307,561 |

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**TREEHOUSE FOODS, INC.**

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

**21. Guarantor and Non-Guarantor Financial Information**

The Company's \$400 million, 7.75% high yield notes are guaranteed by its wholly owned subsidiaries Bay Valley Foods, LLC; EDS Holdings, LLC; Sturm Foods, Inc.; STSF Holdings, Inc. and S.T. Specialty Foods, Inc. and certain other of our subsidiaries that may become guarantors from time to time in accordance with the applicable indenture and may fully, jointly, severally and unconditionally guarantee our payment obligations under any series of debt securities offered. 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 consolidating financial information presents the results of operations, financial position and cash flows of TreeHouse Foods, Inc., 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, 2011 and 2010 and for the three and nine months ended September 30, 2011 and 2010. 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.



**Table of Contents****Condensed Supplemental Consolidating Balance Sheet****September 30, 2011**

(In thousands)

|  | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|--|---------------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------|
| <b>Assets</b>                                    |                           |                                   |                                       |                       |                     |
| Current assets:                                  |                           |                                   |                                       |                       |                     |
| Cash and cash equivalents                        | \$                        | \$ 15                             | \$ 3,065                              | \$                    | \$ 3,080            |
| Receivables, net                                 | 32                        | 124,725                           | 23,181                                |                       | 147,938             |
| Inventories, net                                 |                           | 326,706                           | 40,740                                |                       | 367,446             |
| Deferred income taxes                            | 339                       | 487                               | 166                                   |                       | 992                 |
| Assets held for sale                             |                           | 4,081                             |                                       |                       | 4,081               |
| Prepaid expenses and other current assets        | 859                       | 11,860                            | 2,153                                 |                       | 14,872              |
| <b>Total current assets</b>                      | <b>1,230</b>              | <b>467,874</b>                    | <b>69,305</b>                         |                       | <b>538,409</b>      |
| Property, plant and equipment, net               | 13,716                    | 353,444                           | 33,259                                |                       | 400,419             |
| Goodwill   |                           | 960,258                           | 109,598                               |                       | 1,069,856           |
| Investment in subsidiaries                       | 1,322,529                 | 163,048                           |                                       | (1,485,577)           |                     |
| Intercompany accounts receivable (payable), net  | 646,382                   | (552,271)                         | (94,111)                              |                       |                     |
| Deferred income taxes                            | 13,786                    |                                   |                                       | (13,786)              |                     |
| Identifiable intangible and other assets, net    | 47,000                    | 342,495                           | 77,881                                |                       | 467,376             |
| <b>Total assets</b>                              | <b>\$ 2,044,643</b>       | <b>\$ 1,734,848</b>               | <b>\$ 195,932</b>                     | <b>\$ (1,499,363)</b> | <b>\$ 2,476,060</b> |
| <b>Liabilities and Stockholders Equity</b>       |                           |                                   |                                       |                       |                     |
| Current liabilities:                             |                           |                                   |                                       |                       |                     |
| Accounts payable and accrued expenses            | \$ 4,298                  | \$ 180,656                        | \$ 17,024                             | \$                    | \$ 201,978          |
| Current portion of long-term debt                | 500                       | 1,737                             | 4                                     |                       | 2,241               |
| <b>Total current liabilities</b>                 | <b>4,798</b>              | <b>182,393</b>                    | <b>17,028</b>                         |                       | <b>204,219</b>      |
| Long-term debt                                   | 973,063                   | 17,411                            |                                       |                       | 990,474             |
| Deferred income taxes                            | 6,666                     | 188,760                           | 15,856                                | (13,786)              | 197,496             |
| Other long-term liabilities                      | 19,506                    | 23,755                            |                                       |                       | 43,261              |
| Stockholders equity                              | 1,040,610                 | 1,322,529                         | 163,048                               | (1,485,577)           | 1,040,610           |
| <b>Total liabilities and stockholders equity</b> | <b>\$ 2,044,643</b>       | <b>\$ 1,734,848</b>               | <b>\$ 195,932</b>                     | <b>\$ (1,499,363)</b> | <b>\$ 2,476,060</b> |

**Table of Contents****Condensed Supplemental Consolidating Balance Sheet****December 31, 2010**

(In thousands)

|  | <b>Parent<br/>Company</b> | <b>Subsidiary<br/>Guarantors</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|--|---------------------------|----------------------------------|---------------------------------------|-----------------------|---------------------|
| <b>Assets</b>                                    |                           |                                  |                                       |                       |                     |
| Current assets:                                  |                           |                                  |                                       |                       |                     |
| Cash and cash equivalents                        | \$                        | \$ 6                             | \$ 6,317                              | \$                    | \$ 6,323            |
| Accounts receivable, net                         | 3,381                     | 104,227                          | 19,036                                |                       | 126,644             |
| Inventories, net                                 |                           | 251,993                          | 35,402                                |                       | 287,395             |
| Deferred income taxes                            | 339                       | 2,916                            | 244                                   |                       | 3,499               |
| Assets held for sale                             |                           | 4,081                            |                                       |                       | 4,081               |
| Prepaid expenses and other current assets        | 1,299                     | 10,997                           | 565                                   |                       | 12,861              |
| <b>Total current assets</b>                      | <b>5,019</b>              | <b>374,220</b>                   | <b>61,564</b>                         |                       | <b>440,803</b>      |
| Property, plant and equipment, net               | 12,722                    | 337,634                          | 35,835                                |                       | 386,191             |
| Goodwill   |                           | 963,031                          | 113,290                               |                       | 1,076,321           |
| Investment in subsidiaries                       | 1,216,618                 | 140,727                          |                                       | (1,357,345)           |                     |
| Intercompany accounts receivable (payable), net  | 703,283                   | (586,789)                        | (116,494)                             |                       |                     |
| Deferred income taxes                            | 13,179                    |                                  |                                       | (13,179)              |                     |
| Identifiable intangible and other assets, net    | 45,005                    | 358,805                          | 84,123                                |                       | 487,933             |
| <b>Total assets</b>                              | <b>\$ 1,995,826</b>       | <b>\$ 1,587,628</b>              | <b>\$ 178,318</b>                     | <b>\$ (1,370,524)</b> | <b>\$ 2,391,248</b> |
| <b>Liabilities and Shareholders Equity</b>       |                           |                                  |                                       |                       |                     |
| Current liabilities:                             |                           |                                  |                                       |                       |                     |
| Accounts payable and accrued expenses            | \$ 33,363                 | \$ 147,889                       | \$ 21,132                             | \$                    | \$ 202,384          |
| Current portion of long-term debt                |                           | 976                              |                                       |                       | 976                 |
| <b>Total current liabilities</b>                 | <b>33,363</b>             | <b>148,865</b>                   | <b>21,132</b>                         |                       | <b>203,360</b>      |
| Long-term debt                                   | 963,014                   | 13,438                           |                                       |                       | 976,452             |
| Deferred income taxes                            | 6,210                     | 185,427                          | 16,459                                | (13,179)              | 194,917             |
| Other long-term liabilities                      | 15,273                    | 23,280                           |                                       |                       | 38,553              |
| Shareholders equity                              | 977,966                   | 1,216,618                        | 140,727                               | (1,357,345)           | 977,966             |
| <b>Total liabilities and shareholders equity</b> | <b>\$ 1,995,826</b>       | <b>\$ 1,587,628</b>              | <b>\$ 178,318</b>                     | <b>\$ (1,370,524)</b> | <b>\$ 2,391,248</b> |

**Table of Contents****Condensed Supplemental Consolidating Statement of Income****Three Months Ended September 30, 2011**

(In thousands)

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|---------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Net sales                                   | \$                        | \$ 467,356                        | \$ 68,999                             | \$ (8,305)          | \$ 528,050          |
| Cost of sales                               |                           | 358,055                           | 52,768                                | (8,305)             | 402,518             |
| Gross profit                                |                           | 109,301                           | 16,231                                |                     | 125,532             |
| Selling, general and administrative expense | 13,382                    | 42,642                            | 6,284                                 |                     | 62,308              |
| Amortization                                | 891                       | 6,676                             | 1,272                                 |                     | 8,839               |
| Other operating expense, net                |                           | 1,733                             |                                       |                     | 1,733               |
| Operating (loss) income                     | (14,273)                  | 58,250                            | 8,675                                 |                     | 52,652              |
| Interest expense (income), net              | 12,318                    | (3,321)                           | 3,613                                 |                     | 12,610              |
| Other income, net                           | (283)                     | (164)                             | (4,626)                               |                     | (5,073)             |
| (Loss) income before income taxes           | (26,308)                  | 61,735                            | 9,688                                 |                     | 45,115              |
| Income taxes (benefit)                      | (9,883)                   | 21,770                            | 2,838                                 |                     | 14,725              |
| Equity in net income of subsidiaries        | 46,815                    | 6,850                             |                                       | (53,665)            |                     |
| Net income (loss)                           | \$ 30,390                 | \$ 46,815                         | \$ 6,850                              | \$ (53,665)         | \$ 30,390           |

**Condensed Supplemental Consolidating Statement of Income****Three Months Ended September 30, 2010**

(In thousands)

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|---------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Net sales                                   | \$                        | \$ 408,383                        | \$ 61,788                             | \$ (5,929)          | \$ 464,242          |
| Cost of sales                               |                           | 312,472                           | 47,462                                | (5,929)             | 354,005             |
| Gross profit                                |                           | 95,911                            | 14,326                                |                     | 110,237             |
| Selling, general and administrative expense | 10,784                    | 38,450                            | 5,067                                 |                     | 54,301              |
| Amortization                                | 131                       | 5,723                             | 1,186                                 |                     | 7,040               |
| Other operating expense, net                |                           | 1,103                             |                                       |                     | 1,103               |
| Operating (loss) income                     | (10,915)                  | 50,635                            | 8,073                                 |                     | 47,793              |
| Interest expense (income), net              | 12,585                    | (3,146)                           | 3,428                                 |                     | 12,867              |
| Other income, net                           | (1,081)                   | (413)                             | (390)                                 |                     | (1,884)             |
| (Loss) income before income taxes           | (22,419)                  | 54,194                            | 5,035                                 |                     | 36,810              |
| Income taxes (benefit)                      | (7,502)                   | 18,426                            | 1,019                                 |                     | 11,943              |
| Equity in net income of subsidiaries        | 39,784                    | 4,016                             |                                       | (43,800)            |                     |

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|                   |    |        |    |        |    |       |    |          |    |        |
|-------------------|----|--------|----|--------|----|-------|----|----------|----|--------|
| Net income (loss) | \$ | 24,867 | \$ | 39,784 | \$ | 4,016 | \$ | (43,800) | \$ | 24,867 |
|-------------------|----|--------|----|--------|----|-------|----|----------|----|--------|

**Table of Contents****Condensed Supplemental Consolidating Statement of Income****Nine Months Ended September 30, 2011**

(In thousands)

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|---------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Net sales                                   | \$                        | \$ 1,329,376                      | \$ 208,270                            | \$ (23,463)         | \$ 1,514,183        |
| Cost of sales                               |                           | 1,021,123                         | 160,625                               | (23,463)            | 1,158,285           |
| Gross profit                                |                           | 308,253                           | 47,645                                |                     | 355,898             |
| Selling, general and administrative expense | 42,474                    | 132,539                           | 18,958                                |                     | 193,971             |
| Amortization                                | 2,196                     | 19,192                            | 3,819                                 |                     | 25,207              |
| Other operating expense, net                |                           | 5,731                             |                                       |                     | 5,731               |
| Operating (loss) income                     | (44,670)                  | 150,791                           | 24,868                                |                     | 130,989             |
| Interest expense (income), net              | 38,546                    | (9,365)                           | 10,750                                |                     | 39,931              |
| Other (income) expense, net                 | (928)                     | 484                               | (4,791)                               |                     | (5,235)             |
| (Loss) income before income taxes           | (82,288)                  | 159,672                           | 18,909                                |                     | 96,293              |
| Income taxes (benefit)                      | (30,972)                  | 57,409                            | 5,313                                 |                     | 31,750              |
| Equity in net income of subsidiaries        | 115,859                   | 13,596                            |                                       | (129,455)           |                     |
| Net income (loss)                           | \$ 64,543                 | \$ 115,859                        | \$ 13,596                             | \$ (129,455)        | \$ 64,543           |

**Condensed Supplemental Consolidating Statement of Income****Nine Months Ended September 30, 2010**

(In thousands)

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|---------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Net sales                                   | \$                        | \$ 1,143,184                      | \$ 184,757                            | \$ (20,380)         | \$ 1,307,561        |
| Cost of sales                               |                           | 876,305                           | 146,471                               | (20,380)            | 1,002,396           |
| Gross profit                                |                           | 266,879                           | 38,286                                |                     | 305,165             |
| Selling, general and administrative expense | 36,564                    | 112,103                           | 16,879                                |                     | 165,546             |
| Amortization                                | 394                       | 14,867                            | 3,513                                 |                     | 18,774              |
| Other operating expense, net                |                           | 861                               |                                       |                     | 861                 |
| Operating (loss) income                     | (36,958)                  | 139,048                           | 17,894                                |                     | 119,984             |
| Interest expense (income), net              | 30,923                    | (9,673)                           | 10,223                                |                     | 31,473              |
| Other (income) expense, net                 | (3,007)                   | 975                               | (3,128)                               |                     | (5,160)             |
| (Loss) income before income taxes           | (64,874)                  | 147,746                           | 10,799                                |                     | 93,671              |
| Income taxes (benefit)                      | (22,734)                  | 50,781                            | 2,786                                 |                     | 30,833              |
| Equity in net income of subsidiaries        | 104,978                   | 8,013                             |                                       | (112,991)           |                     |

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|                   |    |        |    |         |    |       |    |           |    |        |
|-------------------|----|--------|----|---------|----|-------|----|-----------|----|--------|
| Net income (loss) | \$ | 62,838 | \$ | 104,978 | \$ | 8,013 | \$ | (112,991) | \$ | 62,838 |
|-------------------|----|--------|----|---------|----|-------|----|-----------|----|--------|

**Table of Contents****Condensed Supplemental Consolidating Statement of Cash Flows****Nine Months Ended September 30, 2011**

(In thousands)

|  | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|---------------------------|-----------------------------------|--|---------------------|---------------------|
| Net cash provided by operating activities                    | \$ (62,203)               | \$ 111,843                        | \$ 1,239                                   | \$                  | \$ 50,879           |
| Cash flows from investing activities:                        |                           |                                   |  |                     |                     |
| Additions to property, plant and equipment                   | (1,714)                   | (48,192)                          | (2,911)                                    |                     | (52,817)            |
| Additions to other intangible assets                         | (4,344)                   | (3,271)                           |  |                     | (7,615)             |
| Acquisition of business, net of cash acquired                |                           | 3,243                             |  |                     | 3,243               |
| Proceeds from sale of fixed assets                           |                           | 210                               | 23   |                     | 233                 |
| Net cash used in investing activities                        | (6,058)                   | (48,010)                          | (2,888)                                    |                     | (56,956)            |
| Cash flows from financing activities:                        |                           |                                   |  |                     |                     |
| Borrowings under revolving credit facility                   | 225,600                   |                                   |  |                     | 225,600             |
| Payments under revolving credit facility                     | (213,900)                 |                                   |  |                     | (213,900)           |
| Payments on capitalized lease obligations                    |                           | (961)                             |  |                     | (961)               |
| Intercompany transfer  | 62,863                    | (62,863)                          |  |                     |                     |
| Payment of deferred financing costs                          | (1,518)                   |                                   |  |                     | (1,518)             |
| Net payments related to stock based award activities         | (8,672)                   |                                   |  |                     | (8,672)             |
| Excess tax benefits from stock-based compensation            | 3,888                     |                                   |  |                     | 3,888               |
| Net cash provided by financing activities                    | 68,261                    | (63,824)                          |  |                     | 4,437               |
| Effect of exchange rate changes on cash and cash equivalents |                           |                                   | (1,603)                                    |                     | (1,603)             |
| Net increase (decrease) in cash and cash equivalents         |                           | 9                                 | (3,252)                                    |                     | (3,243)             |
| Cash and cash equivalents, beginning of period               |                           | 6                                 | 6,317                                      |                     | 6,323               |
| Cash and cash equivalents, end of period                     | \$                        | \$ 15                             | \$ 3,065                                   | \$                  | \$ 3,080            |

**Condensed Supplemental Consolidating Statement of Cash Flows****Nine Months Ended September 30, 2010**

(In thousands)

|   | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|---------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Net cash provided by operating activities     | \$ (16,185)               | \$ 163,284                        | \$ 3,553                              | \$                  | \$ 150,652          |
| Cash flows from investing activities:         |                           |                                   |                                       |                     |                     |
| Additions to property, plant and equipment    | (64)                      | (25,839)                          | (4,574)                               |                     | (30,477)            |
| Additions to other intangible assets          | (9,482)                   | (5,842)                           | (1,464)                               |                     | (16,788)            |
| Acquisition of business, net of cash acquired |                           | (664,655)                         |                                       |                     | (664,655)           |
| Proceeds from sale of fixed assets            |                           | 16                                |                                       |                     | 16                  |
| Net cash used in investing activities         | (9,546)                   | (696,320)                         | (6,038)                               |                     | (711,904)           |
| Cash flows from financing activities:         |                           |                                   |                                       |                     |                     |

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|  |           |          |          |           |
|--|-----------|----------|----------|-----------|
| Proceeds from issuance of debt                               | 400,000   |          |          | 400,000   |
| Borrowings under revolving credit facility                   | 324,600   |          |          | 324,600   |
| Payments under revolving credit facility                     | (251,300) |          |          | (251,300) |
| Payments on capitalized lease obligations                    |           | (682)    | (154)    | (836)     |
| Intercompany transfer  | (535,307) | 535,307  |          |           |
| Proceeds from issuance of common stock, net of expenses      | 110,688   |          |          | 110,688   |
| Payment of deferred financing costs                          | (10,783)  |          |          | (10,783)  |
| Net payments related to stock based award activities         | (11,728)  |          |          | (11,728)  |
| Excess tax deficiency from stock-based compensation          | (440)     |          |          | (440)     |
| Net cash provided by financing activities                    | 25,730    | 534,625  | (154)    | 560,201   |
| Effect of exchange rate changes on cash and cash equivalents |           |          | 92       | 92        |
| Net (decrease) increase in cash and cash equivalents         | (1)       | 1,589    | (2,547)  | (959)     |
| Cash and cash equivalents, beginning of period               | 1         | 8        | 4,406    | 4,415     |
| Cash and cash equivalents, end of period                     | \$        | \$ 1,597 | \$ 1,859 | \$ 3,456  |



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

#### **Business Overview**

TreeHouse is a food manufacturer servicing primarily the retail grocery and foodservice distribution channels. Its products include non-dairy powdered coffee creamers; canned soups; salad dressings and sauces; sugar free drink mixes and sticks; instant oatmeal and hot cereals; macaroni and cheese; skillet dinners; Mexican sauces; jams and pie fillings; pickles and related products; aseptic sauces; refrigerated salad dressings; and liquid non-dairy creamer. TreeHouse believes it is the largest manufacturer of pickles and non-dairy powdered creamer in the United States and the largest manufacturer of private label salad dressings, drink mixes and instant hot cereals in the United States and Canada based on sales volume.

The following discussion and analysis presents the factors that had a material effect on our results of operations for the three and nine months ended September 30, 2011 and 2010. Also discussed is our financial position as of the end of those periods. This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the Notes to those Condensed Consolidated Financial Statements included elsewhere in this report. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. See **Cautionary Statement Regarding Forward-Looking Statements** for a discussion of the uncertainties, risks and assumptions associated with these statements.

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 income, 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 selling and marketing expenses.

Our current operations consist of the following:

*North American Retail Grocery* Our North American Retail Grocery segment sells branded and private label products to customers within the United States and Canada. These products include non-dairy powdered creamers; condensed and ready to serve soups, broths and gravies; salad dressings and sauces; pickles and related products; Mexican sauces; jams and pie fillings; aseptic products; liquid non-dairy creamer; powdered drinks; hot cereals; macaroni and cheese and skillet dinners.

*Food Away from Home* Our Food Away From Home segment sells non-dairy powdered creamers, pickle products, Mexican sauces, refrigerated dressings, aseptic products and hot cereals to foodservice customers, including restaurant chains and food distribution companies, within the United States and Canada.

*Industrial and Export* 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 products for repackaging in portion control packages and for use as ingredients by other food manufacturers; pickles; Mexican sauces; infant feeding products and refrigerated dressings. Export sales are primarily to industrial customers outside of North America.

The Company continues its effort to focus on volume, cost containment and margin improvement. This strategy combined with the acquisitions of Sturm and S.T. Foods, has increased our net sales for the three and nine months ended September 30, 2011 by approximately 13.7% and 15.8%, respectively, versus the same periods last year. However, the Company has been challenged by rising input and distribution costs that have caused our direct operating income margins to decrease from 17.7% in the third quarter of 2010 to 17.4% in the third quarter of 2011. Direct operating income margins for the nine months ended September 30, 2011 and 2010 were 16.7% and 16.9%, respectively. The Company increased prices in the third quarter to offset the increases to ingredient and packaging costs. See **Input Costs** for further discussion.

With the success to date of the Company's ongoing ERP systems implementation, a decision was made to accelerate the conversion of the Sturm and S.T. Foods acquisitions to SAP, while maintaining an aggressive rollout to our distribution centers and manufacturing facilities.

On February 28, 2011, the Company announced plans to close its pickle plant in Springfield, Missouri. Production at the facility ceased in August 2011 and will be consolidated at other pickle facilities. Full plant closure is expected to occur by December 31, 2011. Total costs are expected to be approximately \$5.0 million. Components of the charges include \$3.8 million for asset write-offs and removal of certain manufacturing equipment, approximately \$0.8 million in severance and other charges, and \$0.4 million in costs to transfer inventory to other manufacturing facilities.



**Table of Contents****Recent Developments**

On September 23, 2011, the Company entered into Amendment No.1 ( Amendment ) to the Amended and Restated Credit Agreement ( Credit Agreement ) with Bank of America, N.A., as administrative agent, and the group of other participating lenders. The amendment, among other things, extends the maturity of the revolving credit facility to September 23, 2016, and adjusts the interest rates. The interest rates under the Credit Agreement are based on the Company's consolidated leverage ratio, and are determined by either LIBOR plus a margin ranging from 1.00% to 1.60% or a base rate (as defined in the Credit Agreement) plus a margin ranging from 0.00% to 0.60%. In addition, a facility fee ranging from 0.25% to 0.40% is due quarterly on the aggregate commitment under the revolving credit facility. The aggregate commitment remains at \$750 million, of which \$256.5 million was available as of September 30, 2011.

**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 September 30, |         |            |         | Nine Months Ended September 30, |         |              |         |
|-----------------------------------|----------------------------------|---------|------------|---------|---------------------------------|---------|--------------|---------|
|                                   | 2011                             |         | 2010       |         | 2011                            |         | 2010         |         |
|                                   | Dollars                          | Percent | Dollars    | Percent | Dollars                         | Percent | Dollars      | Percent |
|                                   | (Dollars in thousands)           |         |            |         |                                 |         |              |         |
| Net sales                         | \$ 528,050                       | 100.0%  | \$ 464,242 | 100.0%  | \$ 1,514,183                    | 100.0%  | \$ 1,307,561 | 100.0%  |
| Cost of sales                     | 402,518                          | 76.2    | 354,005    | 76.3    | 1,158,285                       | 76.5    | 1,002,396    | 76.7    |
| Gross profit                      | 125,532                          | 23.8    | 110,237    | 23.7    | 355,898                         | 23.5    | 305,165      | 23.3    |
| Operating expenses:               |                                  |         |            |         |                                 |         |              |         |
| Selling and distribution          | 34,932                           | 6.6     | 28,740     | 6.2     | 106,750                         | 7.0     | 86,423       | 6.6     |
| General and administrative        | 27,376                           | 5.2     | 25,561     | 5.5     | 87,221                          | 5.7     | 79,123       | 6.0     |
| Other operating expense, net      | 1,733                            | 0.3     | 1,103      | 0.2     | 5,731                           | 6.4     | 861          | 0.1     |
| Amortization expense              | 8,839                            | 1.7     | 7,040      | 1.5     | 25,207                          | 1.7     | 18,774       | 1.4     |
| Total operating expenses          | 72,880                           | 13.8    | 62,444     | 13.4    | 224,909                         | 14.8    | 185,181      | 14.1    |
| Operating income                  | 52,652                           | 10.0    | 47,793     | 10.3    | 130,989                         | 8.7     | 119,984      | 9.2     |
| Other expenses (income):          |                                  |         |            |         |                                 |         |              |         |
| Interest expense, net             | 12,610                           | 2.4     | 12,867     | 2.8     | 39,931                          | 2.6     | 31,473       | 2.4     |
| Gain on foreign currency exchange | (5,620)                          | (1.0)   | (46)       | (0.2)   | (5,065)                         | (0.3)   | (2,116)      | (0.2)   |
| Other expense (income), net       | 547                              | 0.1     | (1,838)    | (0.4)   | (170)                           | (0.2)   | (3,044)      | (0.2)   |
| Total other expense               | 7,537                            | 1.5     | 10,983     | 2.4     | 34,696                          | 2.3     | 26,313       | 2.0     |
| Income before income taxes        | 45,115                           | 8.5     | 36,810     | 7.9     | 96,293                          | 6.4     | 93,671       | 7.2     |
| Income taxes                      | 14,725                           | 2.7     | 11,943     | 2.5     | 31,750                          | 2.1     | 30,833       | 2.4     |
| Net income                        | \$ 30,390                        | 5.8%    | \$ 24,867  | 5.4%    | \$ 64,543                       | 4.3%    | \$ 62,838    | 4.8%    |

**Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010**

*Net Sales* Third quarter net sales increased 13.7% to \$528.1 million in 2011 compared to \$464.2 million in the third quarter of 2010. The increase is partially driven by the acquisition of S.T. Foods in 2010 and price increases to offset increasing input costs. Net sales by segment are shown in the following table:

Three Months Ended September 30,  
\$ Increase/ % Increase/

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|                               | 2011                   | 2010       | (Decrease) | (Decrease) |
|-------------------------------|------------------------|------------|------------|------------|
|                               | (Dollars in thousands) |            |            |            |
| North American Retail Grocery | \$ 369,547             | \$ 319,174 | \$ 50,373  | 15.8%      |
| Food Away From Home           | 79,454                 | 83,330     | (3,876)    | (4.7)%     |
| Industrial and Export         | 79,049                 | 61,738     | 17,311     | 28.0%      |
| Total                         | \$ 528,050             | \$ 464,242 | \$ 63,808  | 13.7%      |

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*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, costs to operate and maintain our warehouses, and costs associated with transporting our finished products from our manufacturing facilities to distribution centers. Cost of sales as a percentage of net sales was 76.2% in the third quarter of 2011 compared to 76.3% in 2010, as higher ingredient and packaging costs were offset by increased selling prices.

*Operating Expenses* Total operating expenses were \$72.9 million during the third quarter of 2011 compared to \$62.4 million in 2010. The increase in 2011 resulted from the following:

Selling and distribution expenses increased \$6.2 million or 21.5% in the third quarter of 2011 compared to 2010 primarily due to the addition of S.T. Foods, increases in distribution costs and increased volume. Selling and distribution expenses as a percentage of total revenues increased to 6.6% in 2011 from 6.2% in 2010, mainly due to increases in distribution costs.

General and administrative expenses increased \$1.8 million in the third quarter of 2011 compared to 2010. The increase is primarily related to incremental general and administrative costs of S.T. Foods and costs related to the ERP systems implementation, offset by reduced incentive compensation and acquisition costs.

Other operating expenses were \$1.7 million in the third quarter of 2011 consisting primarily of facility closing costs of the Springfield, Missouri pickle plant and costs associated with the consolidation of the Company's distribution network, compared to \$1.1 million in 2010 due to costs associated with the exit of a third party warehouse and the realignment of the infant feeding business.

Amortization expense increased \$1.8 million in the third quarter of 2011 compared to 2010, due primarily to the additional intangible assets acquired in the S.T. Foods acquisition and amortization of capitalized ERP system costs.

*Interest Expense, net* Interest expense was \$12.6 million in the third quarter of 2011, compared to \$12.9 million in 2010. The decrease was primarily due to the expiration of an interest rate swap contract which had locked in a portion of our floating rate debt at a higher fixed interest rate offset by an increase in debt resulting from the S.T. Foods acquisition and higher borrowing costs.

*Foreign Currency* The Company's foreign currency gain was \$5.6 million for the three months ended September 30, 2011 compared to a gain of \$46 thousand in 2010, due to fluctuations in currency exchange rates between the U.S. and Canadian dollar.

*Income Taxes* Income tax expense was recorded at an effective rate of 32.6% in the third quarter of 2011 compared to 32.4% in the prior year's quarter.

**Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010 Results by Segment**

*North American Retail Grocery*

|                              | 000,000                                 |                | 000,000        |                | 000,000                       |  | 000,000 |
|------------------------------|---|----------------|----------------|----------------|-------------------------------|--|---------|
|                              | <b>Three Months Ended September 30,</b> |                | <b>2011</b>    |                | <b>2010</b>                   |  |         |
|                              | <b>Dollars</b>                          | <b>Percent</b> | <b>Dollars</b> | <b>Percent</b> | <b>(Dollars in thousands)</b> |  |         |
| Net sales                    | \$ 369,547                              | 100.0%         | \$ 319,174     | 100.0%         |                               |  |         |
| Cost of sales                | 278,668                                 | 75.4           | 236,416        | 74.1           |                               |  |         |
| Gross profit                 | 90,879                                  | 24.6           | 82,758         | 25.9           |                               |  |         |
| Freight out and commissions  | 18,359                                  | 5.0            | 14,036         | 4.4            |                               |  |         |
| Direct selling and marketing | 7,814                                   | 2.1            | 7,859          | 2.4            |                               |  |         |
| Direct operating income      | \$ 64,706                               | 17.5%          | \$ 60,863      | 19.1%          |                               |  |         |

Net sales in the North American Retail Grocery segment increased by \$50.4 million, or 15.8% in the third quarter of 2011 compared to 2010. The change in net sales from 2010 to 2011 was due to the following:

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|                  | 000,000<br>Dollars<br>(Dollars in thousands) | 000,000<br>Percent |
|------------------|--|--------------------|
| 2010 Net sales   | \$ 319,174                                   |                    |
| Volume           | 1,866  | 0.6%               |
| Pricing          | 11,144                                       | 3.5                |
| Mix/other        | (449)  | (0.1)              |
| Acquisition      | 34,818                                       | 10.9               |
| Foreign currency | 2,994  | 0.9                |
| 2011 Net sales   | \$ 369,547                                   | 15.8%              |

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The increase in net sales from 2010 to 2011 resulted primarily from the acquisition of S.T. Foods in 2010, higher volume, price increases and foreign currency fluctuations partially offset by an unfavorable product mix. Overall volume is higher in the third quarter of 2011 compared to that of 2010, primarily due to increases in sales of dressings, non-dairy creamer, jams and hot cereals.

Cost of sales as a percentage of net sales increased to 75.4% in the third quarter of 2011 from 74.1% in 2010 primarily due to higher ingredient and packaging costs and warehouse start-up costs partially offset by price increases.

Freight out and commissions paid to independent sales brokers were \$18.4 million in the third quarter of 2011 compared to \$14.0 million in 2010, an increase of 30.8%, primarily due to the addition of S.T. Foods and increases in distribution costs.

Direct selling and marketing expenses were approximately \$7.8 million in the third quarter of 2011 and \$7.9 million in 2010.

*Food Away From Home*

|                              | 000,000                                 | 000,000        | 000,000        | 000,000        |
|------------------------------|---|----------------|----------------|----------------|
|                              | <b>Three Months Ended September 30,</b> |                |                |                |
|                              | <b>2011</b>                             |                | <b>2010</b>    |                |
|                              | <b>Dollars</b>                          | <b>Percent</b> | <b>Dollars</b> | <b>Percent</b> |
|                              | <b>(Dollars in thousands)</b>           |                |                |                |
| Net sales                    | \$ 79,454                               | 100.0%         | \$ 83,330      | 100.0%         |
| Cost of sales                | 61,476                                  | 77.4           | 66,236         | 79.5           |
| Gross profit                 | 17,978                                  | 22.6           | 17,094         | 20.5           |
| Freight out and commissions  | 2,851                                   | 3.6            | 2,729          | 3.3            |
| Direct selling and marketing | 1,572                                   | 1.9            | 1,590          | 1.9            |
| Direct operating income      | \$ 13,555                               | 17.1%          | \$ 12,775      | 15.3%          |

Net sales in the Food Away From Home segment decreased by \$3.9 million, or 4.7%, in the third quarter of 2011 compared to the prior year. The change in net sales from 2010 to 2011 was due to the following:

|                  | 000,000                       | 000,000        |
|------------------|-------------------------------|----------------|
|                  | <b>Dollars</b>                | <b>Percent</b> |
|                  | <b>(Dollars in thousands)</b> |                |
| 2010 Net sales   | \$ 83,330                     |                |
| Volume           | (7,823)                       | (9.4)%         |
| Pricing          | 1,382                         | 1.7            |
| Mix/other        | 1,839                         | 2.2            |
| Acquisition      | 199                           | 0.2            |
| Foreign currency | 527                           | 0.6            |
| 2011 Net sales   | \$ 79,454                     | (4.7)%         |

Net sales decreased during the third quarter of 2011 compared to 2010 primarily due to decreases in volume in our sales of low margin processed pickles partially offset by price increases and a positive product mix.

Cost of sales as a percentage of net sales decreased to 77.4% in the third quarter of 2011 from 79.5% in 2010 due to the Company exiting certain low margin processed pickle business.

Freight out and commissions paid to independent sales brokers were \$2.9 million in the third quarter of 2011 compared to \$2.7 million in 2010, an increase of 4.5%, primarily due to increased distribution costs.

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Direct selling and marketing expenses were \$1.6 million in the third quarter of 2011 and 2010.



**Table of Contents***Industrial and Export*

|                              | Three Months Ended September 30,<br>2011 |         | 2010      |         |
|------------------------------|--|---------|-----------|---------|
|                              | Dollars                                  | Percent | Dollars   | Percent |
|                              | (Dollars in thousands)                   |         |           |         |
| Net sales                    | \$ 79,049                                | 100.0%  | \$ 61,738 | 100.0%  |
| Cost of sales                | 62,374                                   | 78.9    | 51,353    | 83.2    |
| Gross profit                 | 16,675                                   | 21.1    | 10,385    | 16.8    |
| Freight out and commissions  | 2,659                                    | 3.4     | 1,265     | 2.0     |
| Direct selling and marketing | 505                                      | 0.6     | 457       | 0.8     |
| Direct operating income      | \$ 13,511                                | 17.1%   | \$ 8,663  | 14.0%   |

Net sales in the Industrial and Export segment increased \$17.3 million or 28.0% in the third quarter of 2011 compared to the prior year. The change in net sales from 2010 to 2011 was due to the following:

|                  | Dollars                | Percent |
|------------------|------------------------|---------|
|                  | (Dollars in thousands) |         |
| 2010 Net sales   | \$ 61,738              |         |
| Volume           | 10,374                 | 16.8%   |
| Pricing          | 4,760                  | 7.7     |
| Mix/other        | 2,066                  | 3.3     |
| Acquisition      |                        |         |
| Foreign currency | 111                    | 0.2     |
| 2011 Net sales   | \$ 79,049              | 28.0%   |

The increase in net sales is due to increased volume primarily in the non-dairy powdered creamer business, price increases, and a favorable product mix offset by a decrease in co-pack sales.

Cost of sales as a percentage of net sales decreased to 78.9% in the third quarter of 2011 from 83.2% in 2010 primarily due to price increases to offset rising ingredient and packaging costs and a decrease in low margin co-pack sales.

Freight out and commissions paid to independent sales brokers were \$2.7 million in the third quarter of 2011 and \$1.3 million 2010, an increase of 110.2% due to the increase in volume and distribution costs.

Direct selling and marketing expenses were \$0.5 million in the third quarter of 2011 and 2010.

***Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010***

*Net Sales* Net sales increased 15.8% to \$1,514.2 million in the first nine months of 2011 compared to \$1,307.6 million in the first nine months of 2010. The increase is driven by the acquisitions of Sturm and S.T. Foods in 2010, increases in pricing needed to offset higher input costs, favorable foreign currency exchange rates between the U.S. and Canadian dollar and a favorable product mix. Net sales by segment are shown in the following table:

|                                 |            |            |            |
|---------------------------------|------------|------------|------------|
| 00,000,000                      | 00,000,000 | 00,000,000 | 00,000,000 |
| Nine Months Ended September 30, |            |            |            |

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|                               | 2011                   | 2010         | \$ Increase/<br>(Decrease) | % Increase/<br>(Decrease) |
|-------------------------------|------------------------|--------------|----------------------------|---------------------------|
|                               | (Dollars in thousands) |              |                            |                           |
| North American Retail Grocery | \$ 1,073,874           | \$ 888,254   | \$ 185,620                 | 20.9%                     |
| Food Away From Home           | 232,857                | 237,099      | (4,242)                    | (1.8)%                    |
| Industrial and Export         | 207,452                | 182,208      | 25,244                     | 13.9%                     |
| Total                         | \$ 1,514,183           | \$ 1,307,561 | \$ 206,622                 | 15.8%                     |

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*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, costs to operate and maintain our warehouses, and costs associated with transporting our finished products from our manufacturing facilities to distribution centers. Cost of sales as a percentage of net sales was 76.5% in the first nine months of 2011 compared to 76.7% in 2010. Contributing to the reduction in cost of sales, as a percent of net sales, is a favorable mix of sales from Sturm and S.T. Foods, partially offset by lower margins in legacy product categories resulting from an increase in ingredient and packaging costs and warehouse start-up costs associated with the consolidation of the Company's distribution network. The underlying commodity cost of most raw materials and packaging supplies has increased in the nine months ended September 30, 2011 and has been offset by increases in selling prices in the third quarter.

*Operating Expenses* Total operating expenses were \$224.9 million during the first nine months of 2011 compared to \$185.2 million in 2010. The increase in 2011 resulted from the following:

Selling and distribution expenses increased \$20.3 million or 23.5% in the first nine months of 2011 compared to 2010 primarily due to the addition of Sturm and S.T. Foods. Selling and distribution expenses as a percentage of total revenues increased to 7.0% in 2011 from 6.6% in 2010, mainly due to increases in distribution costs.

General and administrative expenses increased \$8.1 million in the first nine months of 2011 compared to 2010. The increase is primarily related to incremental general and administrative costs of Sturm and S.T. Foods and costs related to the ERP systems implementation partially offset by reduced incentive compensation and acquisition costs.

Amortization expense increased \$6.4 million in the first nine months of 2011 compared to 2010, due primarily to the additional intangible assets acquired in the Sturm and S.T. Foods acquisitions and amortization of capitalized ERP systems cost.

Other operating expense was \$5.7 million in the first nine months of 2011 compared to \$0.9 million in the first nine months of 2010. Expense in 2011 relates to facility closings, primarily the closing of the Springfield, Missouri pickle plant. Expense in 2010 was primarily related to costs associated with the realignment of the infant feeding business, offset by the postretirement benefit plan curtailment at our Dixon facility.

*Interest Expense, net* Interest expense increased to \$39.9 million in the first nine months of 2011, compared to \$31.5 million in 2010, primarily due to an increase in debt resulting from the Sturm and S.T. Foods acquisitions and higher borrowing costs offset by the expiration of an interest rate swap contract which had locked in a portion of our floating rate debt at a higher fixed interest rate.

*Foreign Currency* The Company's foreign currency gain was \$5.1 million for the nine months ended September 30, 2011 compared to a gain of \$2.1 million in 2010, due to fluctuations in currency exchange rates between the U.S. and Canadian dollar.

*Income Taxes* Income tax expense was recorded at an effective rate of 33.0% in the first nine months of 2011 compared to 32.9% in 2010. The Company's effective tax rate is favorably impacted by an intercompany financing structure with its Canadian subsidiary E.D. Smith.

***Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010 Results by Segment***

*North American Retail Grocery*

|                              | Nine Months Ended September 30, |         |            |         |
|------------------------------|---------------------------------|---------|------------|---------|
|                              | 2011                            |         | 2010       |         |
|                              | Dollars                         | Percent | Dollars    | Percent |
|                              | (Dollars in thousands)          |         |            |         |
| Net sales                    | \$ 1,073,874                    | 100.0%  | \$ 888,254 | 100.0%  |
| Cost of sales                | 809,340                         | 75.4    | 668,348    | 75.2    |
| Gross profit                 | 264,534                         | 24.6    | 219,906    | 24.8    |
| Freight out and commissions  | 57,124                          | 5.3     | 41,404     | 4.7     |
| Direct selling and marketing | 25,611                          | 2.4     | 23,547     | 2.7     |
| Direct operating income      | \$ 181,799                      | 16.9%   | \$ 154,955 | 17.4%   |

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Net sales in the North American Retail Grocery segment increased by \$185.6 million, or 20.9% in the first nine months of 2011 compared to the first nine months of 2010. The change in net sales from 2010 to 2011 was due to the following:

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|                  | Dollars<br>(Dollars in thousands) | Percent |
|------------------|-----------------------------------|---------|
| 2010 Net sales   | \$ 888,254                        |         |
| Volume           | 18,369                            | 2.1%    |
| Pricing          | 12,536                            | 1.4     |
| Mix/other        | (5,394)                           | (0.6)   |
| Acquisition      | 151,164                           | 17.0    |
| Foreign currency | 8,945                             | 1.0     |
| 2011 Net sales   | \$ 1,073,874                      | 20.9%   |

The increase in net sales from 2010 to 2011 resulted primarily from the acquisition of Sturm and S.T. Foods, foreign currency fluctuations, higher unit sales and price increases offset by an unfavorable product mix. Overall volume is higher in the first nine months of 2011 compared to that of 2010, primarily due to increases in the soup, powdered drinks and hot cereal categories offset by the Company's exit from the retail infant feeding business.

Cost of sales as a percentage of net sales increased to 75.4% in the first nine months of 2011 from 75.2% in 2010 primarily due to a higher ingredient and packaging costs and warehouse start-up costs partially offset by increased pricing.

Freight out and commissions paid to independent sales brokers were \$57.1 million in the first nine months of 2011 compared to \$41.4 million in 2010, an increase of 38.0%, primarily due to the addition of Sturm and S.T. Foods and increases in distribution costs.

Direct selling and marketing expenses increased \$2.1 million, or 8.8% in the first nine months of 2011 compared to 2010 primarily due to the Sturm and S.T. Foods acquisitions.

*Food Away From Home*

|                              | Nine Months Ended September 30, |                                   |            |         |
|------------------------------|---------------------------------|-----------------------------------|------------|---------|
|                              | 2011                            |                                   | 2010       |         |
|                              | Dollars                         | Percent<br>(Dollars in thousands) | Dollars    | Percent |
| Net sales                    | \$ 232,857                      | 100.0%                            | \$ 237,099 | 100.0%  |
| Cost of sales                | 185,056                         | 79.5                              | 188,833    | 79.6    |
| Gross profit                 | 47,801                          | 20.5                              | 48,266     | 20.4    |
| Freight out and commissions  | 8,521                           | 3.6                               | 7,891      | 3.4     |
| Direct selling and marketing | 5,377                           | 2.3                               | 5,458      | 2.3     |
| Direct operating income      | \$ 33,903                       | 14.6%                             | \$ 34,917  | 14.7%   |

Net sales in the Food Away From Home segment decreased by \$4.2 million, or 1.8%, in the first nine months of 2011 compared to the prior year. The change in net sales from 2010 to 2011 was due to the following:

|                  | Dollars<br>(Dollars in thousands) | Percent |
|------------------|-----------------------------------|---------|
| 2010 Net sales   | \$ 237,099                        |         |
| Volume           | (18,685)                          | (7.9)%  |
| Pricing          | 1,317                             | 0.6     |
| Mix/other        | 8,316                             | 3.5     |
| Acquisition      | 3,367                             | 1.4     |
| Foreign currency | 1,443                             | 0.6     |

|                |            |        |
|----------------|------------|--------|
| 2011 Net sales | \$ 232,857 | (1.8)% |
|----------------|------------|--------|

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Net sales decreased during the first nine months of 2011 compared to 2010 primarily due to decreases in volume in our sales of low margin processed pickles partially offset by the acquisition of Sturm, foreign currency fluctuations, increased pricing and a positive product mix.

Cost of sales as a percentage of net sales decreased to 79.5% in the first nine months of 2011 from 79.6% in 2010, as increases in raw material, ingredient and packaging costs were offset by the exiting certain low margin processed pickle business.

Freight out and commissions paid to independent sales brokers were \$8.5 million in the first nine months of 2011 compared to \$7.9 million in 2010 due to the addition of Sturm and increased distribution costs.

Direct selling and marketing expenses were \$5.4 million in the first nine months of 2011 compared to \$5.5 million in 2010.

*Industrial and Export*

|                              | Nine Months Ended September 30,<br>2011 |                                   | 2010       |         |
|------------------------------|---|-----------------------------------|------------|---------|
|                              | Dollars                                 | Percent<br>(Dollars in thousands) | Dollars    | Percent |
| Net sales                    | \$ 207,452                              | 100.0%                            | \$ 182,208 | 100.0%  |
| Cost of sales                | 163,889                                 | 79.0                              | 145,215    | 79.7    |
| Gross profit                 | 43,563                                  | 21.0                              | 36,993     | 20.3    |
| Freight out and commissions  | 5,059                                   | 2.4                               | 3,987      | 2.2     |
| Direct selling and marketing | 1,416                                   | 0.7                               | 1,348      | 0.7     |
| Direct operating income      | \$ 37,088                               | 17.9%                             | \$ 31,658  | 17.4%   |

Net sales in the Industrial and Export segment increased \$25.2 million or 13.9% in the first nine months of 2011 compared to the prior year. The change in net sales from 2010 to 2011 was due to the following:

|                  | Dollars<br>(Dollars in thousands) | Percent |
|------------------|-----------------------------------|---------|
| 2010 Net sales   | \$ 182,208                        |         |
| Volume           | 1,606                             | 0.9%    |
| Pricing          | 11,789                            | 6.5     |
| Mix/other        | 9,583                             | 5.2     |
| Acquisition      | 1,963                             | 1.1     |
| Foreign currency | 303                               | 0.2     |
| 2011 Net sales   | \$ 207,452                        | 13.9%   |

The increase in net sales is primarily due to price increases, a favorable product mix and the addition of the Sturm co-pack business. The higher volume is mainly due to higher sales of non-dairy creamer offset by a decrease in the co-pack soup business.

Cost of sales, as a percentage of net sales, decreased to 79.0% in the first nine months of 2011 from 79.7% in 2010 primarily due to price increases partially offset by cost increases in raw material, ingredient and packaging costs.

Freight out and commissions paid to independent sales brokers were \$5.1 million in the first nine months of 2011 compared to \$4.0 million in 2010, an increase of 26.9%, due to increases in distribution costs.

Direct selling and marketing expenses were \$1.4 million in the first nine months of 2011 compared to \$1.3 million in 2010.





**Table of Contents****Liquidity and Capital Resources****Cash Flow**

Management assesses the Company's liquidity in terms of its ability to generate cash to fund its operating, investing and financing activities. The Company continues to generate substantial cash flow from operating activities and remains in a strong financial position, with resources available for reinvestment in existing businesses, acquisitions and managing its capital structure on a short and long-term basis. If additional borrowings are needed, approximately \$256.5 million was available under the revolving credit facility as of September 30, 2011. See Note 10 to our Condensed Consolidated Financial Statements for additional information regarding our revolving credit facility. We believe that, given our cash flow from operating activities and our available credit capacity, we can comply with the current terms of the revolving credit facility, satisfy our ordinary course business obligations and meet other foreseeable financial requirements.

The Company's cash flows from operating, investing and financing activities, as reflected in the Condensed Consolidated Statements of Cash Flows are summarized in the following tables:

|  | Nine Months Ended<br>September 30, |                   |
|--|------------------------------------|-------------------|
|  | 2011                               | 2010              |
|  | (In thousands)                     |                   |
| <b>Cash flows from operating activities:</b>                     |                                    |                   |
| Net income   | \$ 64,543                          | \$ 62,838         |
| Depreciation and amortization                                    | 61,680                             | 50,642            |
| Stock-based compensation   | 12,573                             | 11,817            |
| (Gain) loss on foreign currency exchange                         | (274)                              | 1,012             |
| Write-down of tangible assets                                    | 2,891                              |                   |
| Curtailment of postretirement benefit obligation                 |                                    | (2,357)           |
| Deferred income taxes  | 5,303                              | 7,918             |
| Changes in operating assets and liabilities, net of acquisitions | (90,991)                           | 18,845            |
| Other  | (4,846)                            | (63)              |
| <b>Net cash provided by operating activities</b>                 | <b>\$ 50,879</b>                   | <b>\$ 150,652</b> |

Our cash from operations was \$50.9 million in the first nine months of 2011 compared to \$150.7 million 2010, a decrease of \$99.8 million. The decrease in cash from operating activities is due to an increase in working capital, primarily resulting from an increase in receivables and inventories resulting from higher input costs and higher inventory levels due to the roll out of our new regional distribution centers.

|   | Nine Months Ended<br>September 30, |                     |
|---|------------------------------------|---------------------|
|   | 2011                               | 2010                |
|   | (In thousands)                     |                     |
| <b>Cash flows from investing activities:</b>  |                                    |                     |
| Additions to property, plant and equipment    | \$ (52,817)                        | \$ (30,477)         |
| Additions to other intangible assets          | (7,615)                            | (16,788)            |
| Acquisition of business, net of cash acquired | 3,243                              | (664,655)           |
| Other   | 233                                | 16                  |
| <b>Net cash used in investing activities</b>  | <b>\$ (56,956)</b>                 | <b>\$ (711,904)</b> |

In the first nine months of 2011, cash used in investing activities decreased by \$654.9 million compared to 2010 primarily due to the acquisition of Sturm in 2010 for \$664.7 million, and an increase in planned capital expenditures.

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We expect capital spending programs to be approximately \$85 million in 2011. Capital spending in 2011 will focus on food safety, quality, productivity improvements, improvements to our San Antonio facility, installation of an Enterprise Resource Planning system (ERP) and routine equipment upgrades or replacements at our plants, and will be funded with cash from operations.

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|   | Nine Months Ended<br>September 30, |                   |
|---|------------------------------------|-------------------|
|   | 2011                               | 2010              |
|   | (In thousands)                     |                   |
| <b>Cash flows from financing activities:</b>            |                                    |                   |
| Proceeds from issuance of debt for acquisitions         | \$                                 | \$ 400,000        |
| Borrowings under revolving credit facility              | 225,600                            | 324,600           |
| Payments under revolving credit facility                | (213,900)                          | (251,300)         |
| Proceeds from issuance of common stock, net of expenses |                                    | 110,688           |
| Payment of deferred financing costs                     | (1,518)                            | (10,783)          |
| Net payments related to stock-based award activities    | (8,672)                            | (11,728)          |
| Other   | 2,927                              | (1,276)           |
| <b>Net cash provided by financing activities</b>        | <b>\$ 4,437</b>                    | <b>\$ 560,201</b> |

Net cash provided by financing activities in 2011 was \$4.4 million compared to \$560.2 million in 2010. In the first nine months of 2010, we issued \$400.0 million of new debt, common stock in the net amount of \$110.7 million and borrowings under our revolving credit facility to finance the Sturm acquisition. The first nine months of 2011 consisted of normal borrowings and repayments under our line of credit.

Cash provided by operating activities is used to pay down debt and fund additions to property, plant and equipment and intangible assets.

Our short-term financing needs are primarily for financing working capital during the year. Due to the seasonality of pickle and fruit production, driven by harvest cycles which occur primarily during late spring and summer, inventories generally are at a low point in late spring and at a high point during the fall, increasing our working capital requirements. In addition, we build inventories of salad dressings in the spring and soup in the late summer months in anticipation of large seasonal shipments that begin late in the second and third quarters, respectively. Our long-term financing needs will depend largely on potential acquisition activity. We expect our revolving credit facility, plus cash flow from operations, to be adequate to provide liquidity for current operations.

**Debt Obligations**

At September 30, 2011, we had \$484.3 million in borrowings outstanding under our revolving credit facility, \$400 million of 7.75% High Yield Notes due 2018, \$100 million of 6.03% Senior Notes due September 30, 2013 and \$8.4 million of tax increment financing and other obligations. In addition, at September 30, 2011, there were \$9.2 million in letters of credit under the revolving credit facility that were issued but undrawn.

Our revolving credit facility provides for an aggregate commitment of \$750 million, of which \$256.5 million was available at September 30, 2011. Interest rates on debt outstanding under our revolving credit facility as of September 30, 2011 averaged 1.78%.

We are in compliance with applicable debt covenants relating to our revolving credit facility, high yield notes and senior notes as of September 30, 2011.

See Note 10 to our Condensed Consolidated Financial Statements for additional information regarding our indebtedness and related agreements, including a description of applicable covenants.

**Other Commitments and Contingencies**

We also have the following commitments and contingent liabilities, in addition to contingent liabilities related to the ordinary course of litigation, investigations and tax audits:

certain lease obligations, and

selected levels of property and casualty risks, primarily related to employee health care, workers compensation claims and other casualty losses.

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See Note 17 to our Condensed Consolidated Financial Statements and Note 19 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 for more information about our commitments and contingent obligations.

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### **Recent Accounting Pronouncements**

Information regarding recent accounting pronouncements is provided in Note 2 to the Company's Condensed Consolidated Financial Statements.

### **Critical Accounting Policies**

A description of the Company's critical accounting policies is contained in our Annual Report on Form 10-K for the year ended December 31, 2010. There were no material changes to our critical accounting policies in the nine months ended September 30, 2011.

### **Off-Balance Sheet Arrangements**

We do not have any obligations that meet the definition of an off-balance sheet arrangement, other than operating leases and letters of credit, which have or are reasonably likely to have a material effect on our Condensed Consolidated Financial Statements.

### **Forward Looking Statements**

From time to time, we and our representatives may provide information, whether orally or in writing, including certain statements in this Quarterly Report on Form 10-Q, which are deemed to be forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995 (the Litigation Reform Act). These forward-looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available.

The words anticipate, believe, estimate, project, expect, intend, plan, should and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. We do not intend to update these forward-looking statements.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Quarterly Report on Form 10-Q and other public statements we make. Such factors include, but are not limited to: the outcome of litigation and regulatory proceedings to which we may be a party; the impact of product recalls; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; our ability to obtain suitable pricing for our products; development of new products and services; our level of indebtedness; the availability of financing on commercially reasonable terms; cost of borrowing; our ability to maintain and improve cost efficiency of operations; changes in foreign currency exchange rates; interest rates; raw material and commodity costs; changes in economic conditions; political conditions; reliance on third parties for manufacturing of products and provision of services; general U.S. and global economic conditions; the financial condition of our customers and suppliers; consolidations in the retail grocery and foodservice industries; our ability to continue to make acquisitions in accordance with our business strategy or effectively manage the growth from acquisitions; and other risks that are set forth in the Risk Factors section, the Legal Proceedings section, the Management's Discussion and Analysis of Financial Condition and Results of Operations section and other sections of this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2010 and from time to time in our filings with the Securities and Exchange Commission.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **Interest Rate Fluctuations**

The Company is party to an unsecured revolving credit facility with an aggregate commitment of \$750 million. The interest rate under the revolving credit facility is based on the Company's consolidated leverage ratio, and will be determined by either LIBOR plus a margin ranging from 1.00% to 1.60% or a base rate (as defined in the revolving credit facility) plus a margin ranging from 0.00% to 0.60%.



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In July 2006, we entered into a forward interest rate swap transaction for a notional 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 loss is 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.

We do not utilize financial instruments for trading purposes or hold any derivative financial instruments, which could expose us to significant interest rate market risk. Our exposure to market risk for changes in interest rates relates primarily to the increase in the amount of interest expense we expect to pay with respect to our revolving credit facility, which is tied to variable market rates. Based on our outstanding debt balance of \$484.3 million under our revolving credit facility at September 30, 2011, each 1% rise in our interest rate would increase our interest expense by approximately \$4.8 million annually.

### **Input Costs**

The costs of raw materials, packaging materials and fuel, have varied widely in recent years and future changes in such costs may cause our results of operations and our operating margins to fluctuate significantly. We experienced increases in costs of most raw materials, ingredients, and packaging materials in the first nine months of 2011 compared to 2010. In addition, fuel costs, which represent the most important factor affecting utility costs at our production facilities as well as our transportation costs, rose significantly in the first nine months of 2011. We expect the volatile nature of these costs to continue with an overall upward trend.

We manage the cost of certain raw materials by entering into forward purchase contracts. Forward purchase contracts help us manage our business and reduce cost volatility.

The most important raw material used in our pickle operations is cucumbers. We purchase cucumbers under seasonal grower contracts with a variety of growers strategically located to supply our production facilities. Bad weather or disease in a particular growing area can damage or destroy the crop in that area, which would impair crop yields. If we are not able to buy cucumbers from local suppliers, we would likely either purchase cucumbers from foreign sources, such as Mexico or India, or ship cucumbers from other growing areas in the United States, thereby increasing our production costs.

Changes in the prices of our products may lag behind changes in the costs of our products. We experienced a lag in our pricing in the second quarter of 2011 relative to increased input costs. Although we expect the trend of increased input costs to continue, we anticipate that we will realize the impact of our recent pricing efforts, which will partially offset such increased costs. Competitive pressures also may limit our ability to quickly raise prices in response to increased raw materials, packaging and fuel costs. Accordingly, if we are unable to increase our prices to offset increasing raw material, packaging and fuel costs, our operating profits and margins could be materially adversely affected. In addition, in instances of declining input costs, customers may be looking for price reductions in situations where we have locked into pricing at higher costs.

### **Fluctuations in Foreign Currencies**

The Company is exposed to fluctuations in the value of our foreign currency investment in E.D. Smith, located in Canada. Input costs for certain Canadian products are denominated in U.S. dollars, further impacting the effect foreign currency fluctuations may have on the Company.

The Company's financial statements are presented in U.S. dollars, which require the Canadian assets, liabilities, revenues, and expenses to be translated into U.S. dollars at the applicable exchange rates. Accordingly, we are exposed to volatility in the translation of foreign currency earnings due to fluctuations in the value of the Canadian dollar, which may negatively impact the Company's results of operations and financial position. For the nine months ended September 30, 2011 the Company recognized a net loss of \$5.4 million, of which a loss of \$10.5 million was recorded as a component of Accumulated other comprehensive loss and a gain of \$5.1 million was recorded on the Company's Condensed Consolidated Statements of Income within the Loss on foreign currency exchange. For the nine months ended September 30, 2010, the Company recognized a net foreign currency exchange gain of \$7.9 million, of which a gain of \$5.8 million was recorded as a component of Accumulated other comprehensive loss and a gain of \$2.1 million was recorded on the Company's Condensed Consolidated Statements of Income within the Loss on foreign currency exchange.

The Company has entered into foreign currency contracts due to the exposure to Canadian/U.S. dollar currency fluctuations on cross border transactions. The Company does not apply hedge accounting to these contracts and records them at fair value on the Condensed Consolidated Balance Sheets. The contracts were entered into for the purchase of U.S. dollar denominated raw materials by our Canadian subsidiary. For three and nine months ended September 30, 2011, the Company recorded an unrealized gain of approximately \$1.5 million and \$1.6 million, respectively.





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**Item 4. Controls and Procedures**

Evaluations were carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon those evaluations, the Chief Executive Officer and Chief Financial Officer have concluded that as of September 30, 2011, these disclosure controls and procedures were effective. We have excluded S.T. Foods from our evaluation of disclosure controls and procedures, as of September 30, 2011, because S.T. Foods was acquired by the Company in October of 2010. The net sales and total assets of S.T. Foods represented approximately 6.2%, and 8.9%, respectively, of the related Condensed Consolidated Financial Statement amounts as of and for the quarter ended September 30, 2011.

During the third quarter of 2011, we continued migrating certain financial processing systems to an enterprise resource planning system. This software implementation is part of our ongoing business transformation initiative, and we plan to continue implementing such software and related processes throughout our businesses over the course of the next few years. In connection with this implementation and resulting business process changes, we continue to enhance the design and documentation of our internal control processes to ensure suitable controls over our financial reporting.

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

TreeHouse Foods, Inc.

Oak Brook, IL

We have reviewed the accompanying condensed consolidated balance sheet of TreeHouse Foods, Inc. and subsidiaries (the Company) as of September 30, 2011, and the related condensed consolidated statements of income for the three and nine month periods ended September 30, 2011 and 2010 and of cash flows for the nine month periods ended September 30, 2011 and 2010. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of TreeHouse Foods, Inc. and subsidiaries as of December 31, 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 14, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

*/s/ DELOITTE & TOUCHE LLP*

Chicago, Illinois

November 4, 2011

**Table of Contents****Part II Other Information****Item 1. Legal Proceedings**

We are party to a variety of legal proceedings arising out of the conduct of our business. While the results of proceedings cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on our consolidated financial statements, annual results of operations or cash flows.

**Item 1A. Risk Factors**

Information regarding risk factors appears in *Management's Discussion and Analysis of Financial Condition and Results of Operations Information Related to Forward-Looking Statements*, in Part I Item 2 of this Form 10-Q and in Part I Item 1A of the TreeHouse Foods, Inc. Annual Report on Form 10-K for the year ended December 31, 2010. There have been no material changes from the risk factors previously disclosed in the TreeHouse Foods, Inc. Annual Report on Form 10-K for the year ended December 31, 2010.

**Item 6. Exhibits**

- |          |  |
|----------|--|
| 10.1     | Amendment No.1 to Amended and Restated Credit Agreement, dated as of September 23, 2011 by and among TreeHouse Foods, Inc., Bank of America, N.A. in its capacity as administrative agent, and each of the Lenders parties thereto, is incorporated by reference to Exhibit 10.1 to the Company's Current Report of Form 8-K dated September 23, 2011. |
| 12.1     | Computation of Ratio of Earnings to Fixed Charges.   |
| 15.1     | Awareness Letter from Deloitte & Touche LLP regarding unaudited financial information.   |
| 31.1     | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2     | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1     | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2     | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101.INS* | XBRL Instance Document.  |
| 101.SCH* | XBRL Taxonomy Extension Schema Document.   |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document.   |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document.  |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document.  |

\*Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income for the three and nine months ended September 30, 2011 and 2010, (ii) the Condensed Consolidated Balance Sheet at September 30, 2011 and December 31, 2010, (iii) the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2011 and 2010, and (iv) Notes to Condensed Consolidated Financial Statements for the nine months ended September 30, 2011. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.



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**SIGNATURES**

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TREEHOUSE FOODS, INC.

/s/ Dennis F. Riordan  
Dennis F. Riordan  
*Executive Vice President and Chief Financial Officer*

November 4, 2011