TreeHouse Foods, Inc.
Form 10-Q
November 05, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934**
For the Quarterly Period Ended September 30, 2015.

or

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

Commission File Number 001-32504

TreeHouse Foods, Inc.

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

Delaware	**20-2311383**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
2021 Spring Road, Suite 600 **Oak Brook, IL**	**60523**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting Company	¨

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

Yes ¨ No x

Number of shares of Common Stock, $0.01 par value, outstanding as of October 31, 2015: 43,095,305

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Part I Financial Information

Item 1. Financial Statements

TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2015	December 31, 2014
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 22,883	$ 51,981
Investments	8,032	9,148
Receivables, net	213,631	233,656
Inventories, net	647,085	594,098
Deferred income taxes	28,644	35,564
Prepaid expenses and other current assets	36,846	24,989
Total current assets	957,121	949,436
Property, plant, and equipment, net	543,559	543,778
Goodwill	1,654,138	1,667,985
Intangible assets, net	661,511	716,298
Other assets, net	27,393	25,507
Total assets	$ 3,843,722	$ 3,903,004
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 313,890	$ 296,860
Current portion of long-term debt	16,560	14,373
Total current liabilities	330,450	311,233
Long-term debt	1,307,262	1,445,488
Deferred income taxes	319,655	319,454
Other long-term liabilities	67,481	67,572
Total liabilities	2,024,848	2,143,747
Commitments and contingencies (Note 17)		
Stockholders equity:		
Preferred stock, par value $0.01 per share, 10,000 shares authorized, none issued		
	431	427

Common stock, par value $0.01 per share, 90,000 shares authorized, 43,091 and 42,663 shares issued and outstanding, respectively		
Additional paid-in capital	1,199,066	1,177,342
Retained earnings	723,474	645,819
Accumulated other comprehensive loss	(104,097)	(64,331)
Total stockholders equity	1,818,874	1,759,257
Total liabilities and stockholders equity	$ 3,843,722	$ 3,903,004

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Net sales	$ 798,638	$ 795,726	$ 2,340,991	$ 2,042,589
Cost of sales	639,941	637,138	1,878,486	1,615,333
Gross profit	158,697	158,588	462,505	427,256
Operating expenses:				
Selling and distribution	44,887	47,631	133,482	125,242
General and administrative	36,535	47,864	119,302	122,242
Other operating expense, net	154	170	504	1,408
Amortization expense	14,893	14,958	45,772	35,524
Total operating expenses	96,469	110,623	299,060	284,416
Operating income	62,228	47,965	163,445	142,840
Other expense (income):				
Interest expense	10,914	10,102	33,978	29,976
Interest income	(265)	(113)	(2,228)	(694)
Loss on foreign currency exchange	9,226	8,004	18,226	6,856
Loss on extinguishment of debt		75		22,019
Other expense (income), net	2,078	(898)	(394)	105
Total other expense	21,953	17,170	49,582	58,262
Income before income taxes	40,275	30,795	113,863	84,578
Income taxes	11,834	10,913	36,208	28,615
Net income	$ 28,441	$ 19,882	$ 77,655	$ 55,963
Net earnings per common share:				
Basic	$ 0.66	$ 0.48	$ 1.81	$ 1.46
Diluted	$ 0.65	$ 0.47	$ 1.78	$ 1.43
Weighted average common shares:				
Basic	43,168	41,099	43,004	38,272
Diluted	43,721	42,002	43,672	39,259

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
	(Unaudited)		**(Unaudited)**	
Net income	$ 28,441	$ 19,882	$ 77,655	$ 55,963
Other comprehensive income (loss):				
Foreign currency translation adjustments	(20,216)	(14,269)	(40,533)	(15,270)
Pension and postretirement reclassification adjustment (1)	256	103	767	309
Other comprehensive income (loss)	(19,960)	(14,166)	(39,766)	(14,961)
Comprehensive income	$ 8,481	$ 5,716	$ 37,889	$ 41,002

(1) Net of tax of $158 and $64 for the three months ended September 30, 2015 and 2014, respectively, and $474 and $194 for the nine months ended September 30, 2015 and 2014, respectively.

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 77,655	$ 55,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	46,160	47,401
Amortization	45,772	35,524
Stock-based compensation	15,503	17,102
Excess tax benefits from stock-based compensation	(5,004)	(11,915)
Loss on extinguishment of debt		22,019
Mark-to-market gain on derivative contracts	(378)	(93)
Mark-to-market loss (gain) on investments	421	(466)
Loss on disposition of assets	365	1,810
Deferred income taxes	239	(2,814)
Loss on foreign currency exchange	18,226	6,856
Other	(1,127)	5,330
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	14,493	(7,872)
Inventories	(61,715)	(109,155)
Prepaid expenses and other assets	(5,150)	(10,836)
Accounts payable, accrued expenses and other liabilities	23,730	28,107
Net cash provided by operating activities	169,190	76,961
Cash flows from investing activities:		
Additions to property, plant, and equipment	(57,188)	(65,392)
Additions to other intangible assets	(9,663)	(7,838)
Acquisitions, less cash acquired		(1,000,948)
Proceeds from sale of fixed assets	278	538
Purchase of investments	(572)	(471)
Proceeds from sale of investments		63
Other		525
Net cash used in investing activities	(67,145)	(1,073,523)
Cash flows from financing activities:		
Borrowings under Revolving Credit Facility	131,100	854,400
Payments under Revolving Credit Facility	(257,100)	(735,400)
Proceeds from issuance of Term Loan and Acquisition Term Loan		500,000
Payments on Term Loan and Acquisition Term Loan	(7,250)	(2,000)

Proceeds from issuance of 2022 Notes		400,000
Payments on 2018 Notes		(400,000)
Payments on capitalized lease obligations and other debt	(2,672)	(1,880)
Payment of deferred financing costs		(13,712)
Payment of debt premium for extinguishment of debt		(16,693)
Net proceeds from issuance of stock		358,364
Net receipts related to stock-based award activities	1,221	17,193
Excess tax benefits from stock-based compensation	5,004	11,915
Net cash (used in) provided by financing activities	(129,697)	972,187
Effect of exchange rate changes on cash and cash equivalents	(1,446)	71
Net decrease in cash and cash equivalents	(29,098)	(24,304)
Cash and cash equivalents, beginning of period	51,981	46,475
Cash and cash equivalents, end of period	$ 22,883	$ 22,171

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, 2015

(Unaudited)

1. BASIS OF PRESENTATION

The unaudited Condensed Consolidated Financial Statements included herein have been prepared by TreeHouse Foods, Inc. (the Company, TreeHouse, we, us, or our), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) applicable to quarterly reporting on Form 10-Q. In our opinion, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as permitted by such rules and regulations. The Condensed Consolidated Financial Statements and related notes should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2014. 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, 2014.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments,* to simplify the accounting for adjustments made to provisional amounts. This ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period, in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This ASU is effective for fiscal periods beginning after December 15, 2015. The Company will apply this guidance prospectively, beginning January 1, 2016.

In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, which clarifies the Securities and Exchange Commission s (SEC) position on the presentation and measurement of debt issuance costs incurred in connection with line-of-credit agreements. ASU 2015-15 clarifies that the SEC will not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. This ASU is effective upon issuance and did not change how the Company historically reported its deferred issuance costs incurred in connection with its line of credit.

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

In April 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize investments within the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient discussed in ASC 820-10-35. The ASU also limits required disclosures to investments for which an entity has elected to measure fair value using the practical expedient. Under current guidance, certain disclosures are required for all investments eligible to be measured at fair value using the net asset value per share practical expedient. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Upon adoption, the standard requires that entities apply these changes to all periods presented. The Company does not believe this ASU will have a significant impact on the Company s financial statements.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which changes the presentation of debt issuance costs in the balance sheet. Under the ASU, an entity will present debt issuance costs as a direct deduction of the related debt liability with the amortization of the debt issuance costs reported as interest expense. Under current guidance, debt issuance costs are reported separately as an asset with the amortization recorded as interest expense. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The standard requires that entities apply the effects of these changes to all prior years presented, upon adoption, using a full retrospective approach. The Company does not believe this ASU will have a significant impact on the Company s financial statements.

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which introduced a new framework to be used when recognizing revenue in an attempt to reduce complexity and increase comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. In July 2015, the FASB approved a one-year deferral on the effective date for this ASU, which will now be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The standard requires that entities apply the effects of these changes to all prior years presented, upon adoption, using either the full retrospective method, which presents the impact of the change separately in each prior year presented, or the modified retrospective method, which includes the cumulative changes to all prior years presented in beginning retained earnings in the year of initial adoption. The Company has not yet determined which of the two adoption methods to elect. The Company is currently assessing the impact this standard will have upon adoption.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. ACQUISITIONS

Flagstone

On July 29, 2014, the Company acquired all of the outstanding shares of Flagstone Foods (Flagstone), a privately owned U.S. based manufacturer of branded and private label varieties of snack nuts, trail mixes, dried fruit, snack mixes, and other wholesome snacks. Flagstone is one of the largest manufacturers and distributors of private label wholesome snacks in North America, and is the largest manufacturer of private label trail mix in North America. The purchase price was approximately $854.2 million, net of acquired cash, after adjustments for working capital. The acquisition was financed through additional borrowings and the issuance of common stock. The acquisition expanded our existing product offerings by providing the Company with an entrance into the wholesome snack food category, while also providing more exposure to the perimeter of the store.

The Flagstone acquisition is accounted for under the acquisition method of accounting and the results of operations are included in our financial statements from the date of acquisition in the North American Retail Grocery and Industrial and Export segments. Included in the Company s Condensed Consolidated Statements of Income are Flagstone s net sales of approximately $118 million and net loss of $4.5 million from the date of acquisition through September 30, 2014. The loss includes integration costs of $10.5 million.

We have completed the allocation of the purchase price to net tangible and intangible assets acquired and liabilities assumed as follows:

		(In thousands)
Cash	$	902
Receivables		55,640
Inventory		128,224
Property, plant, and equipment		37,154
Customer relationships		231,700
Trade names		6,300
Supplier relationships		2,500
Software		1,755
Formulas		1,600
Other assets		35,081
Goodwill		511,274
Fair value of assets acquired		1,012,130
Deferred taxes		(81,602)
Assumed liabilities		(75,397)
Total purchase price	$	855,131

The Company allocated $231.7 million to customer relationships and $6.3 million to trade names, each of which have an estimated life of 15 years. The Company allocated $1.6 million to formulas, which have an estimated life of 5 years. The Company allocated $1.8 million to capitalized software with an estimated life of 1 year. The aforementioned intangibles will be amortized on a straight line basis. The Company allocated $2.5 million to supplier relationships, which will be amortized in a method reflecting the pattern in which the economic benefits of the intangible asset are consumed over the period of one year. The Company has allocated all $511.3 million of goodwill to the North American Retail Grocery segment. Goodwill arises principally as a result of expansion opportunities related to Flagstone s product offerings in the snacking category. None of the goodwill resulting from this acquisition is tax deductible. The Company incurred approximately $8.6 million of acquisition costs during the three and nine months ended September 30, 2014 and none in 2015. Since the initial preliminary purchase price allocation included in the Company s annual report for the year ended December 31, 2014, net adjustments of $5.7 million were made to the fair values of the assets acquired and liabilities assumed with corresponding adjustments to goodwill.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following unaudited pro forma information shows the results of operations for the Company as if its acquisition of Flagstone had been completed as of January 1, 2014. Adjustments have been made for the pro forma effects of depreciation and amortization of tangible and intangible assets recognized as part of the business combination, the issuance of common stock, interest expense related to the financing of the business combination, and related income taxes. The pro forma results may not necessarily reflect actual results of operations that would have been achieved, nor are they necessarily indicative of future results of operations.

	Nine Months Ended September 30, 2014 (In thousands, except per share data)	
Pro forma net sales	$	2,428,595
Pro forma net income	$	48,933
Pro forma basic earnings per common share	$	1.13
Pro forma diluted earnings per common share	$	1.11

Protenergy

On May 30, 2014, the Company acquired all of the outstanding shares of PFF Capital Group, Inc. (Protenergy), a privately owned Canadian based manufacturer of broths, soups, and gravies. Protenergy specializes in providing products in carton and recart packaging for both private label and corporate brands, and also serves as a co-manufacturer of national brands. The Company paid $140.1 million, net of acquired cash, for the purchase of Protenergy. The acquisition was financed through additional borrowings. The acquisition expanded our existing packaging capabilities and enables us to offer customers a full range of soup products, as well as leverage our research and development capabilities in the evolution of shelf stable liquids packaging from cans to cartons.

The Protenergy acquisition is accounted for under the acquisition method of accounting and the results of operations are included in our financial statements from the date of acquisition in the North American Retail Grocery and Industrial and Export segments. Included in the Company s Condensed Consolidated Statements of Income are Protenergy s net sales of approximately $57.2 million from the date of acquisition through September 30, 2014. Also included is a net loss of $4.0 million from the date of acquisition through September 30, 2014. This loss includes integration costs of $5.8 million. At the date of acquisition, the purchase price was allocated to the assets acquired and liabilities assumed based upon fair market values.

We have completed the allocation of the purchase price to net tangible and intangible assets acquired and liabilities assumed as follows:

		(In thousands)
Cash	$	2,580
Receivables		10,949
Inventory		38,283
Property, plant, and equipment		36,355
Customer relationships		49,516
Software		1,483
Formulas		433
Other assets		2,425
Goodwill		50,728
Fair value of assets acquired		192,752
Assumed liabilities		(42,412)
Unfavorable contractual agreements		(7,643)
Total purchase price	$	142,697

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company allocated $49.5 million to customer relationships that have an estimated life of 15 years and $0.4 million to formulas with an estimated life of 5 years. These intangible assets will be amortized on a straight line basis. The Company recorded $7.6 million of unfavorable contractual agreements, which have an estimated life of 2.6 years. These unfavorable contracts will be amortized in a method reflecting the pattern in which the economic costs are incurred. As of the acquisition date, the Company has allocated all $50.7 million of goodwill to the North American Retail Grocery segment. Goodwill arises principally as a result of expansion opportunities, driven in part by Protenergy s packaging technology. None of the goodwill resulting from this acquisition is tax deductible. The Company incurred approximately $0.5 million and $3.2 million in acquisition costs in the three and nine months ended September 30, 2014, respectively, and none in 2015. These costs are included in the General and administrative expense line of the Condensed Consolidated Statements of Income. Since the initial preliminary purchase price allocation included in the Company s annual report for the year ended December 31, 2014, net adjustments of $0.2 million were made to increase the fair values of the assets acquired and liabilities assumed with corresponding adjustments to goodwill.

The following unaudited pro forma information shows the results of operations for the Company as if the acquisition of Protenergy had been completed as of January 1, 2014. Adjustments have been made for the pro forma effects of depreciation and amortization of tangible and intangible assets recognized as part of the business combination, interest expense related to the financing of the business combination, and related income taxes. These pro forma results may not necessarily reflect actual results of operations that would have been achieved, nor are they necessarily indicative of future results of operations.

	Nine Months Ended September 30, 2014 (In thousands, except per share data)	
Pro forma net sales	$	2,103,347
Pro forma net income	$	48,403
Pro forma basic earnings per common share	$	1.26
Pro forma diluted earnings per common share	$	1.23

4. INVESTMENTS

	September 30, 2015	December 31, 2014
	(In thousands)	

U.S. equity	$ 4,961	$ 5,749
Non-U.S. equity	1,516	1,692
Fixed income	1,555	1,707
Total investments	$ 8,032	$ 9,148

We determine the appropriate classification of our investments at the time of purchase and reevaluate such designation as of each balance sheet date. The Company accounts for investments in debt and marketable equity securities as held-to-maturity, available-for-sale, or trading, depending on their classification. The investments held by the Company are classified as trading securities and are stated at fair value, with changes in fair value recorded as a component of the Interest income or Interest expense line on the Condensed Consolidated Statements of Income. Cash flows from purchases, sales, and maturities of trading securities are included in cash flows from investing activities in the Condensed Consolidated Statements of Cash Flows based on the nature and purpose for which the securities were acquired.

Our investments include U.S. equity, non-U.S. equity, and fixed income securities that are classified as short-term investments on the Condensed Consolidated Balance Sheets. The U.S. equity, non-U.S. equity, and fixed income securities are classified as short-term investments as they have characteristics of other current assets and are actively managed.

We consider temporary cash investments with an original maturity of three months or less to be cash equivalents. As of September 30, 2015 and December 31, 2014, $21.4 million and $31.6 million, respectively, represents cash and equivalents held in Canada in local currency and are convertible into other currencies. The cash and equivalents held in Canada are expected to be used for general corporate purposes in Canada, including capital projects and acquisitions.

For the three months ended September 30, 2015, we recognized unrealized losses totaling $0.8 million that are included in the Interest expense line of the Condensed Consolidated Statements of Income and $0.2 million of unrealized gains that are included in the Interest income line of the Condensed Consolidated Statements of Income.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the nine months ended September 30, 2015, we recognized unrealized losses totaling $1.0 million that are included in the Interest expense line of the Condensed Consolidated Statements of Income and unrealized gains totaling $0.6 million that are included in the Interest income line of the Condensed Consolidated Statements of Income.

Realized gains for the three months ended September 30, 2015 were insignificant, while for the nine months ended September 30, 2015, we recognized gains totaling $0.2 million that are included in the Interest income line of the Condensed Consolidated Statements of Income. When securities are sold, their cost is determined based on the first-in, first-out method.

5. INVENTORIES

	September 30, 2015	December 31, 2014
	(In thousands)	
Raw materials and supplies	$ 312,097	$ 279,745
Finished goods	355,468	334,856
LIFO reserve	(20,480)	(20,503)
Total	$ 647,085	$ 594,098

Approximately $89.7 million and $87.4 million of our inventory was accounted for under the last-in, first-out (LIFO) method of accounting at September 30, 2015 and December 31, 2014, respectively. Approximately $138.9 million and $117.3 million of our inventory was accounted for using the weighted average costing approach at September 30, 2015 and December 31, 2014, respectively.

6. PROPERTY, PLANT, AND EQUIPMENT

	September 30, 2015	December 31, 2014
	(In thousands)	
Land	$ 25,943	$ 27,097
Buildings and improvements	218,839	209,117
Machinery and equipment	663,156	644,333
Construction in progress	43,204	35,010
Total	951,142	915,557
Less accumulated depreciation	(407,583)	(371,779)

Property, plant, and equipment, net	$ 543,559	$ 543,778

Depreciation expense was $15.3 million for the three months ended September 30, 2015 and 2014, and $46.2 million and $47.4 million for the nine months ended September 30, 2015 and 2014, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the nine months ended September 30, 2015 are as follows:

	North American Retail Grocery	Food Away From Home	Industrial and Export	Total
		(In thousands)		
Balance at December 31, 2014	$ 1,439,476	$ 94,423	$ 134,086	$ 1,667,985
Foreign currency exchange adjustments	(17,633)	(1,770)		(19,403)
Purchase price adjustments	5,556			5,556
Balance at September 30, 2015	$ 1,427,399	$ 92,653	$ 134,086	$ 1,654,138

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

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The carrying amounts of our intangible assets with indefinite lives, other than goodwill, as of September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
	(In thousands)	
Trademarks	$ 25,904	$ 28,995
Total indefinite lived intangibles	$ 25,904	$ 28,995

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

The gross carrying amount and accumulated amortization of intangible assets, with finite lives, as of September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization (In thousands)	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization (In thousands)	Net Carrying Amount
Intangible assets with finite lives:						
Customer-related	$ 773,847	$ (198,604)	$ 575,243	$ 794,300	$ (168,462)	$ 625,838
Contractual agreements	3,961	(3,811)	150	2,829	(2,396)	433
Trademarks	32,301	(10,580)	21,721	32,579	(9,041)	23,538
Formulas/recipes	9,531	(6,690)	2,841	10,763	(7,138)	3,625
Computer software	74,300	(38,648)	35,652	65,202	(31,333)	33,869
Total other intangibles	$ 893,940	$ (258,333)	$ 635,607	$ 905,673	$ (218,370)	$ 687,303

Total intangible assets, excluding goodwill, as of September 30, 2015 and December 31, 2014, were $661.5 million and $716.3 million, respectively. Amortization expense on intangible assets for the three months ended September 30, 2015 and 2014 was $14.9 million and $15.0 million, respectively, and $45.8 million and $35.5 million for the nine months ended September 30, 2015 and 2014, respectively. Estimated amortization expense on intangible assets for 2015 and the next four years is as follows:

(In thousands)

2015	$	61,412
2016	$	60,521
2017	$	59,171
2018	$	53,610
2019	$	52,179

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	September 30, 2015	December 31, 2014
	(In thousands)	
Accounts payable	$ 243,699	$ 217,226
Payroll and benefits	29,103	38,669
Interest	1,390	6,507
Taxes	14,741	5,947
Health insurance, workers compensation, and other insurance costs	9,629	8,602
Marketing expenses	8,956	12,479
Other accrued liabilities	6,372	7,430
Total	$ 313,890	$ 296,860

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. INCOME TAXES

Income tax expense was recorded at an effective rate of 29.4% and 31.8% for the three and nine months ended September 30, 2015, respectively, compared to 35.4% and 33.8% for the three and nine months ended September 30, 2014, respectively. The Company s effective tax rate is favorably impacted by an intercompany financing structure entered into in conjunction with the E.D. Smith Foods, Ltd. (E.D. Smith) acquisition in 2007. The decrease in the effective tax rate for the three and nine months ended September 30, 2015 as compared to 2014 is largely attributable to acquisition related expenses incurred in the third quarter of 2014 that were not deductible for tax purposes and a decrease in state tax expense.

The Internal Revenue Service (IRS) completed its examination of TreeHouse s 2012 tax year during the first quarter of 2015, resulting in an immaterial cash refund to the Company. During the third quarter of 2015, the IRS initiated an examination of the Flagstone Foods pre-acquisition 2013 tax year. The Canadian Revenue Agency (CRA) is currently examining the 2008 through 2012 tax years of E.D. Smith. The E.D. Smith examinations are expected to be completed in 2016. The Company also has examinations in process with various state taxing authorities, which are expected to be completed in 2015 or 2016.

Management estimates that it is reasonably possible that the total amount of unrecognized tax benefits could decrease by as much as $1.5 million within the next 12 months, primarily as a result of the lapsing of statutes of limitations.

10. LONG-TERM DEBT

	September 30, 2015	December 31, 2014
	(In thousands)	
Revolving Credit Facility	$ 428,000	$ 554,000
Term Loan	296,250	298,500
Acquisition Term Loan	192,500	197,500
2022 Notes	400,000	400,000
Tax increment financing and other debt	7,072	9,861
Total debt outstanding	1,323,822	1,459,861
Less current portion	(16,560)	(14,373)
Total long-term debt	$ 1,307,262	$ 1,445,488

On May 6, 2014, the Company entered into a new five year revolving credit facility with an aggregate commitment of $900 million (the Revolving Credit Facility) and a $300 million term loan (the Term Loan) pursuant to a new credit agreement (the Credit Agreement). The proceeds from the Term Loan and a draw at closing on the Revolving Credit Facility were used to repay in full, amounts outstanding under our prior $750 million revolving credit facility (the

Prior Credit Agreement). The Credit Agreement replaced the Prior Credit Agreement, which was terminated upon the repayment of the amounts outstanding thereunder on May 6, 2014.

On July 29, 2014, the Company entered into an amendment to its Credit Agreement (the Amendment), which among other things, provided for a new $200 million term loan (the Acquisition Term Loan). The Acquisition Term Loan was used to fund, in part, the acquisition of Flagstone.

The Revolving Credit Facility, Term Loan, and Acquisition Term Loan are known collectively as the Credit Facility. The Company s average interest rate on debt outstanding under its Credit Facility for the three months ended September 30, 2015 was 1.89%.

Revolving Credit Facility As of September 30, 2015, $458.9 million of the aggregate commitment of $900 million of the Revolving Credit Facility was available. The Revolving Credit Facility matures on May 6, 2019. In addition, as of September 30, 2015, there were $13.1 million in letters of credit under the Revolving Credit Facility that were issued but undrawn, which have been included as a reduction to the calculation of available credit.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest is payable quarterly or at the end of the applicable interest period in arrears on any outstanding borrowings. The interest rates under the Credit Agreement are based on the Company s consolidated leverage ratio and are determined by either (i) LIBOR, plus a margin ranging from 1.25% to 2.00% (inclusive of the facility fee), based on the Company s consolidated leverage ratio, or (ii) a Base Rate (as defined in the Credit Agreement), plus a margin ranging from 0.25% to 1.00% (inclusive of the facility fee), based on the Company s consolidated leverage ratio.

The Credit Agreement is fully and unconditionally, as well as jointly and severally, guaranteed by our 100% owned direct and indirect subsidiaries, Bay Valley Foods, LLC; Sturm Foods, Inc.; S.T. Specialty Foods, Inc.; American Importing Company, Inc.; Ann s House of Nuts, Inc.; Snacks Parent Corporation; and certain other subsidiaries that may become guarantors in the future (collectively known as the Guarantor Subsidiaries). The Revolving Credit Facility contains various financial and restrictive covenants and requires that the Company maintain certain financial ratios, including a leverage and interest coverage ratio. The Credit Agreement also contains cross-default provisions which could result in the acceleration of payments in the event TreeHouse or the Guarantor Subsidiaries (i) fails to make a payment when due in respect of any indebtedness or guarantee having an aggregate principal amount greater than $50 million or (ii) fails to observe or perform any other agreement or condition related to such indebtedness or guarantee as a result of which the holder(s) of such debt are permitted to accelerate the payment of such debt.

Term Loan On May 6, 2014, the Company entered into a $300 million senior unsecured Term Loan pursuant to the Credit Agreement. The Term Loan matures on May 6, 2021. The interest rates applicable to the Term Loan are based on the Company s consolidated leverage ratio and are determined by either (i) LIBOR, plus a margin ranging from 1.50% to 2.25%, or (ii) a Base Rate (as defined in the Credit Agreement), plus a margin ranging from 0.50% to 1.25%. Payments are due on a quarterly basis. The Term Loan is subject to substantially the same covenants as the Revolving Credit Facility, and also has the same Guarantor Subsidiaries. As of September 30, 2015, $296.3 million was outstanding under the Term Loan.

Acquisition Term Loan On July 29, 2014, the Company entered into a $200 million unsecured Acquisition Term Loan pursuant to the Credit Agreement. The Acquisition Term Loan matures on May 6, 2019. The interest rates applicable to the Acquisition Term Loan are based on the Company s consolidated leverage ratio and are determined by either (i) LIBOR, plus a margin ranging from 1.25% to 2.00%, or (ii) a Base Rate (as defined in the Credit Agreement), plus a margin ranging from 0.25% to 1.00%. Payments are due on a quarterly basis. The Acquisition Term Loan is subject to substantially the same covenants as the Revolving Credit Facility, and has the same Guarantor Subsidiaries. As of September 30, 2015, $192.5 million was outstanding under the Acquisition Term Loan.

2022 Notes On March 11, 2014, the Company completed its underwritten public offering of $400 million in aggregate principal amount of 4.875% notes due March 15, 2022 (the 2022 Notes). The net proceeds of $394 million ($400 million less underwriting discount of $6 million, providing an effective interest rate of 4.99%) were used to extinguish the Company s previously issued 7.75% notes due on March 1, 2018 (the 2018 Notes). The Company issued the 2022 Notes pursuant to an Indenture between the Company, the Guarantor Subsidiaries, and the Trustee.

The Indenture provides, among other things, that the 2022 Notes will be senior unsecured obligations of the Company. The Company s payment obligations under the 2022 Notes are fully and unconditionally, as well as jointly and severally, guaranteed on a senior unsecured basis by the Guarantor Subsidiaries, in addition to any future domestic subsidiaries that (i) guarantee or become borrowers under its credit facility or (ii) guarantee certain other indebtedness incurred by the Company or its restricted subsidiaries. Interest is payable on March 15 and September 15 of each year. The 2022 Notes mature on March 15, 2022.

The Company may redeem some or all of the 2022 Notes at any time prior to March 15, 2017 at a price equal to 100% of the principal amount of the 2022 Notes redeemed, plus an applicable make-whole premium. On or after March 15, 2017, the Company may redeem some or all of the 2022 Notes at redemption prices set forth in the Indenture. In addition, at any time prior to March 15, 2017, the Company may redeem up to 35% of the 2022 Notes at a redemption price of 104.875% of the principal amount of the 2022 Notes redeemed with the net cash proceeds of certain equity offerings.

Subject to certain limitations, in the event of a change in control of the Company, the Company will be required to make an offer to purchase the 2022 Notes at a purchase price equal to 101% of the principal amount of the 2022 Notes, plus accrued and unpaid interest up to the purchase date.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Indenture contains restrictive covenants that, among other things, limit the ability of the Company and the Guarantor Subsidiaries to: (i) pay dividends or make other restricted payments, (ii) make certain investments, (iii) incur additional indebtedness or issue preferred stock, (iv) create liens, (v) pay dividends or make other payments (except for certain dividends and payments to the Company and certain subsidiaries of the Company), (vi) merge or consolidate with other entities or sell substantially all of its assets, (vii) enter into transactions with affiliates, and (viii) engage in certain sale and leaseback transactions. The foregoing limitations are subject to exceptions as set forth in the Indenture. In addition, if in the future, the 2022 Notes have an investment grade credit rating by both Moody s Investors Services, Inc. and Standard & Poor s Ratings Services, certain of these covenants will thereafter no longer apply to the 2022 Notes for so long as the 2022 Notes are rated investment grade by the two rating agencies.

Tax Increment Financing On December 15, 2001, the Urban Redevelopment Authority of Pittsburgh (URA) issued $4.0 million of redevelopment bonds, pursuant to a Tax Increment Financing Plan to assist with certain aspects of the development and construction of the Company s Pittsburgh, Pennsylvania facilities. The agreement was transferred to the Company as part of the acquisition of the soup and infant feeding business. The Company has agreed to make certain payments with respect to the principal amount of the URA s redevelopment bonds through May 2019. As of September 30, 2015, $1.3 million remains outstanding that matures May 1, 2019. Interest accrues at an annual rate of 7.16%.

Capital Lease Obligations and Other The Company owes $5.8 million related to capital leases. Capital lease obligations represent machinery and equipment financing obligations, which are payable in monthly installments of principal and interest, and are collateralized by the related assets financed.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the number of weighted average common shares outstanding during the reporting period. The weighted average number of common shares used in the diluted earnings per share calculation is determined using the treasury stock method and includes the incremental effect related to the Company s outstanding stock-based compensation awards.

On July 22, 2014, the Company closed the public offering of an aggregate 4,950,331 shares of the Company s common stock, par value $0.01 per share, at a price of $75.50 per share. The Company used the net proceeds ($358 million) from the stock offering to fund, in part, the acquisition of Flagstone.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Net Income	$ 28,441	$ 19,882	$ 77,655	$ 55,963
Weighted average common shares outstanding	43,168	41,099	43,004	38,272
Assumed exercise/vesting of equity awards (1)	553	903	668	987
Weighted average diluted common shares outstanding	43,721	42,002	43,672	39,259
Net earnings per basic share	$ 0.66	$ 0.48	$ 1.81	$ 1.46
Net earnings per diluted share	$ 0.65	$ 0.47	$ 1.78	$ 1.43

(1) Incremental shares from equity awards are computed by the treasury stock method. Equity awards, excluded from our computation of diluted earnings per share because they were anti-dilutive, were 0.7 million for the three and nine months ended September 30, 2015, respectively, and 0.4 million for the three and nine months ended September 30, 2014, respectively.

12. STOCK-BASED COMPENSATION

The Board of Directors adopted, and the Company s Stockholders approved, the TreeHouse Foods, Inc. Equity and Incentive Plan (the Plan). On April 23, 2015, the Plan was amended and restated to increase the number of shares available for issuance under the Plan by 3 million shares, effective February 27, 2015. The Plan is administered by our Compensation Committee, which consists entirely of independent directors. The Compensation Committee determines specific awards for our executive officers. For all other employees, if the committee designates, our Chief Executive Officer or such other officers will, from time to time, determine specific persons to whom awards under the Plan will be granted, and the terms and conditions of each award. The Compensation Committee or its designee, pursuant to the terms of the Plan, also will make all other necessary decisions and interpretations under the plan.

Under the Plan, the Compensation Committee may grant awards of various types of compensation, including stock options, restricted stock, restricted stock units, performance shares, performance units, other types of stock-based awards, and other cash-based compensation. The maximum number of shares available to be awarded under the Plan is approximately 12.3 million, of which approximately 3.8 million remain available as of September 30, 2015.

Income before income taxes for the three and nine month periods ended September 30, 2015 includes share-based compensation expense of $5.0 million and $15.5 million, respectively. Share-based compensation expense for the three and nine months ended September 30, 2014 was $7.4 million and $17.1 million, respectively. The tax benefit recognized related to the compensation cost of these share-based awards was approximately $1.7 million and $5.4 million for the three and nine months ended September 30, 2015, respectively, and $2.7 million and $6.1 million for the three and nine month periods ended September 30, 2014, respectively.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Options The following table summarizes stock option activity during the nine months ended September 30, 2015. Stock options generally have a three year vesting schedule, which vest one-third on each of the first three anniversaries of the grant date, and expire ten years from the grant date.

	Employee Options	Director Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value
	(In thousands)				(In thousands)
Outstanding, December 31, 2014	1,858	42	$ 49.53	5.7	$ 68,396
Granted	399		$ 76.43		
Forfeited	(66)		$ 76.04		
Exercised	(257)	(7)	$ 28.41		
Outstanding, September 30, 2015	1,934	35	$ 56.92	6.4	$ 41,809
Vested/expected to vest, at September 30, 2015	1,879	35	$ 56.34	6.3	$ 41,721
Exercisable, September 30, 2015	1,244	35	$ 46.54	4.9	$ 40,188

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
	(In millions)		(In millions)	
Compensation expense	$ 1.7	$ 1.5	$ 4.9	$ 3.8
Intrinsic value of stock options exercised	$ 1.0	$ 11.9	$ 14.4	$ 33.5
Tax benefit recognized from stock option exercises	$ 0.4	$ 4.6	$ 5.5	$ 12.9

Compensation costs related to unvested options totaled $12.3 million at September 30, 2015 and will be recognized over the remaining vesting period of the grants, which averages 2.2 years. The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used to calculate the fair value of stock options issued in 2015 include the following: expected volatility of 25.07%, expected term of six years, risk free rate of 1.98% and no dividends. The weighted average grant date fair value of awards granted during 2015 was $22.00.

Restricted Stock Units Employee 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 generally vest on the first anniversary of the grant date. Certain directors have deferred receipt of their awards until their departure from the Board of Directors, or a specified date. As of September 30, 2015, 95 thousand director restricted stock units have been earned and deferred.

The following table summarizes the restricted stock unit activity during the nine months ended September 30, 2015.

	Employee Restricted Stock Units (In thousands)	Weighted Average Grant Date Fair Value	Director Restricted Stock Units (In thousands)	Weighted Average Grant Date Fair Value
Outstanding, at December 31, 2014	392	$ 71.97	101	$ 49.71
Granted	172	$ 76.65	16	$ 76.30
Vested	(174)	$ 67.42	(6)	$ 68.58
Forfeited	(63)	$ 76.17		$
Outstanding, at September 30, 2015	327	$ 76.07	111	$ 52.60

	Three Months Ended September 30, 2015 (In millions)	Three Months Ended September 30, 2014 (In millions)	Nine Months Ended September 30, 2015 (In millions)	Nine Months Ended September 30, 2014 (In millions)
Compensation expense	$ 2.8	$ 3.2	$ 8.9	$ 8.4
Fair value of vested restricted stock units	$ 0.9	$ 0.3	$ 13.9	$ 11.6
Tax benefit recognized from vested restricted stock units	$ 0.3	$ 0.2	$ 4.8	$ 4.3

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future compensation costs related to restricted stock units are approximately $19.4 million as of September 30, 2015, and will be recognized on a weighted average basis, over the next 2.1 years. The grant date fair value of the awards granted in 2015 is equal to the Company s closing stock price on the grant date.

Performance Units 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. During the nine months ended September 30, 2015, based on achievement of operating performance measures, 93,505 performance units were converted into 66,674 shares of stock, an average conversion ratio of 0.71 shares for each performance unit. The following table summarizes the performance unit activity during the nine months ended September 30, 2015:

	Performance Units (In thousands)	Weighted Average Grant Date Fair Value
Unvested, at December 31, 2014	269	$ 68.76
Granted	105	$ 76.30
Vested	(67)	$ 60.88
Forfeited	(34)	$ 64.52
Unvested, at September 30, 2015	273	$ 74.14

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In millions)		(In millions)	
Compensation expense	$ 0.5	$ 2.7	$ 1.7	$ 4.9
Fair value of vested performance units	$ 0.6	$	$ 5.1	$ 0.4
Tax benefit recognized from performance units vested	$ 0.2	$	$ 1.9	$ 0.2

Future compensation costs related to the performance units are estimated to be approximately $5.2 million as of September 30, 2015, and are expected to be recognized over the next 1.5 years. The grant date fair value of the awards is equal to the Company s closing stock price on the date of grant.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated Other Comprehensive Loss consists of the following components, all of which are net of tax, except for the foreign currency translation adjustment:

	Foreign Currency Translation (1)	Unrecognized Pension and Postretirement Benefits (2)	Accumulated Other Comprehensive Loss
		(In thousands)	
Balance at December 31, 2014	$ (51,326)	$ (13,005)	$ (64,331)
Other comprehensive loss	(40,533)		(40,533)
Reclassifications from accumulated other comprehensive loss		767	767
Other comprehensive (loss) income	(40,533)	767	(39,766)
Balance at September 30, 2015	$ (91,859)	$ (12,238)	$ (104,097)

	Foreign Currency Translation (1)	Unrecognized Pension and Postretirement Benefits (2)	Accumulated Other Comprehensive Loss
		(In thousands)	
Balance at December 31, 2013	$ (24,689)	$ (7,074)	$ (31,763)
Other comprehensive loss	(15,270)		(15,270)
Reclassifications from accumulated other comprehensive loss		309	309
Other comprehensive (loss) income	(15,270)	309	(14,961)
Balance at September 30, 2014	$ (39,959)	$ (6,765)	$ (46,724)

(1) The foreign currency translation adjustment is not net of tax, as it pertains to the Company s permanent investment in its Canadian subsidiaries.

(2) The unrecognized pension and postretirement benefits reclassification is presented net of tax of $474 thousand and $194 thousand for the nine months ended September 30, 2015 and 2014, respectively. The reclassification is included in the computation of net periodic pension cost, which is recorded in the Cost of

sales and General and administrative lines of the Condensed Consolidated Statements of Income.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Condensed Consolidated Statements of Income lines impacted by reclassifications out of Accumulated Other Comprehensive Loss are outlined below:

	Reclassifications from Accumulated Other Comprehensive Loss				Affected line in The Condensed Consolidated Statements of Income
	Three months ended September 30,		Nine months ended September 30,		
	2015	2014	2015	2014	
	(In thousands)		(In thousands)		
Amortization of defined benefit pension items:					
Prior service costs	$ 36	$ 35	$ 109	$ 109	(a)
Unrecognized net loss	378	132	1,132	394	(a)
Total before tax	414	167	1,241	503	
Income taxes	158	64	474	194	Income taxes
Net of tax	$ 256	$ 103	$ 767	$ 309	

(a) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost, and are recorded in the Cost of sales and General and administrative lines of the Condensed Consolidated Statements of Income.

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	Nine Months Ended

	September 30,		September 30,	
	2015	2014	2015	2014
	(In thousands)			
Service cost	$ 621	$ 545	$ 1,864	$ 1,635
Interest cost	713	693	2,138	2,078
Expected return on plan assets	(765)	(797)	(2,295)	(2,393)
Amortization of prior service costs	53	51	157	158
Amortization of unrecognized net loss	365	127	1,095	379
Net periodic pension cost	$ 987	$ 619	$ 2,959	$ 1,857

The Company contributed $2.0 million to the pension plans in the first nine months of 2015. The Company does not expect to make additional contributions to the plans in 2015.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of net periodic postretirement expense are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Service cost	$ 5	$ 5	$ 15	$ 15
Interest cost	38	39	113	117
Amortization of prior service costs	(17)	(16)	(49)	(49)
Amortization of unrecognized net loss	13	5	38	15
Net periodic postretirement cost	$ 39	$ 33	$ 117	$ 98

The Company expects to contribute approximately $0.2 million to the postretirement health plans during 2015.

Net periodic pension costs are recorded in the Cost of sales and General and administrative lines of the Condensed Consolidated Statements of Income.

15. OTHER OPERATING EXPENSE, NET

The Company incurred other operating expense for the three and nine months ended September 30, 2015 and 2014, which consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Restructuring	$ 154	$ 170	$ 504	$ 1,408
Total other operating expense, net	$ 154	$ 170	$ 504	$ 1,408

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended September 30,	
	2015	2014

	(In thousands)	
Interest paid	$ 36,601	$ 37,427
Income taxes paid	$ 35,064	$ 39,508
Accrued purchase of property and equipment	$ 3,971	$ 2,528
Accrued other intangible assets	$ 1,569	$ 1,421

Non-cash financing activities for the nine months ended September 30, 2015 and 2014 include the gross issuance of 264,490 shares and 142,860 shares, respectively, of restricted stock units and performance units. A portion of these shares were withheld to satisfy minimum statutory tax withholding requirements and are included as a financing cash outflow. Income taxes paid in the first nine months of 2015 were lower than the first nine months of 2014 due to the availability of federal and state overpayments carried forward from the 2014 tax year and applied to the Company s 2015 tax liabilities.

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 that are probable and reasonably estimable that may be incurred in connection with any such currently pending or threatened matter, none of which are significant. In the Company s opinion, the settlement of any such currently pending or threatened matter is not expected to have a material impact on its financial position, annual results of operations, or cash flows.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED 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. Derivative contracts are entered into for periods consistent with the related underlying exposure and do not constitute positions independent of those exposures. The Company does not enter into derivative instruments for trading or speculative purposes.

The Company manages its exposure to changes in interest rates by optimizing the use of variable-rate and fixed-rate debt and by utilizing interest rate swaps to hedge our exposure to changes in interest rates, to reduce the volatility of our financing costs, and to achieve a desired proportion of fixed versus floating-rate debt, based on current and projected market conditions, with a bias toward fixed-rate debt.

Due to the Company s operations in Canada, we are exposed to foreign currency risk. The Company enters into foreign currency contracts to manage the risk associated with foreign currency cash flows. The Company s objective in using foreign currency contracts is to establish a fixed foreign currency exchange rate for the net cash flow requirements for purchases that are denominated in U.S. dollars. These contracts do not qualify for hedge accounting and changes in their fair value are recorded in the Condensed Consolidated Statements of Income, with their fair value recorded on the Condensed Consolidated Balance Sheets. As of September 30, 2015, the Company had $7.6 million of U.S. dollar foreign currency contracts outstanding, expiring in October of this year. As of September 30, 2014, the Company did not have any foreign currency contracts outstanding.

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

The Company s derivative commodity contracts may include contracts for diesel, oil, plastics, natural gas, electricity, and other commodity contracts that do not meet the requirements for the normal purchases and normal sales scope exception.

The Company s diesel contracts are used to manage the Company s risk associated with the underlying cost of diesel fuel used to deliver products. The contracts for oil and plastics are used to manage the Company s risk associated with the underlying commodity cost of a significant component used in packaging materials. Contracts for natural gas and electricity are used to manage the Company s risk associated with the utility costs of its manufacturing facilities, and commodity contracts that are derivatives that do not meet the normal purchases and normal sales scope exception are used to manage the price risk associated with raw material costs. As of September 30, 2015, the Company had outstanding contracts for the purchase of 71,085 megawatts of electricity, expiring throughout 2015 and 2016; 1.8 million pounds of plastics, expiring throughout 2015; 4.5 million gallons of diesel, expiring throughout 2015 and early 2016; 2.4 million dekatherms of natural gas, expiring throughout 2016; and 1.5 million pounds of coffee, expiring throughout 2016.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Balance Sheet Location	Fair Value September 30, 2015	Fair Value December 31, 2014
		(In thousands)	
Asset Derivative:			
Foreign currency contracts	Prepaid expenses and other current assets	$ 106	$
		$ 106	$
Liability Derivative:			
Commodity contracts	Accounts payable and accrued expenses	$ 2,837	$ 3,044
		$ 2,837	$ 3,044

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

	Location of (Loss) Gain Recognized in Income	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
		(In thousands)		(In thousands)	
Mark-to-market unrealized gain (loss):					
Commodity contracts	Other expense (income), net	$ (834)	$ (77)	$ 207	$ 93
Foreign currency contracts	Other expense (income), net	(1,183)	194	171	
Total unrealized gain (loss)		(2,017)	117	378	93
Realized (loss) gain					
Commodity contracts	Selling and distribution	(1,508)		(3,268)	
Foreign currency contracts	Cost of Sales	681		1,142	
Total realized loss		(827)		(2,126)	
Total (loss) gain		$ (2,844)	$ 117	$ (1,748)	$ 93

19. FAIR VALUE

The following table presents the carrying value and fair value of our financial instruments as of September 30, 2015 and December 31, 2014:

	September 30, 2015		December 31, 2014		
	Carrying Value	Fair Value	Carrying Value	Fair Value	Level
	(In thousands)		(In thousands)		
Not recorded at fair value (liability):					
Revolving Credit Facility	$ (428,000)	$ (428,234)	$ (554,000)	$ (559,085)	2
Term Loan	$ (296,250)	$ (296,939)	$ (298,500)	$ (315,070)	2
Acquisition Term Loan	$ (192,500)	$ (192,698)	$ (197,500)	$ (202,716)	2
2022 Notes	$ (400,000)	$ (384,000)	$ (400,000)	$ (406,000)	2
Recorded on a recurring basis at fair value (liability) asset:					
Commodity contracts	$ (2,837)	$ (2,837)	$ (3,044)	$ (3,044)	2
Foreign currency contracts	$ 106	$ 106	$	$	2
Investments	$ 8,032	$ 8,032	$ 9,148	$ 9,148	1

Cash and cash equivalents and accounts receivable are financial assets with carrying values that approximate fair value. Accounts payable are financial liabilities with carrying values that approximate fair value.

The fair value of the Revolving Credit Facility, Term Loan, Acquisition Term Loan, 2022 Notes, foreign currency contracts, and commodity contracts are determined using Level 2 inputs. Level 2 inputs are inputs other than quoted market prices that are observable for an asset or liability, either directly or indirectly. The fair values of the Revolving Credit Facility, Term Loan, and Acquisition Term Loan were estimated using present value techniques and market based interest rates and credit spreads. The fair

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

value of the Company s 2022 Notes was estimated based on quoted market prices for similar instruments, where the inputs are considered Level 2, due to their infrequent trading volume.

The fair value of the commodity contracts and foreign currency contracts are based on an analysis comparing the contract rates to the market rates at the balance sheet date. The commodity contracts and foreign currency contracts are recorded at fair value on the Condensed Consolidated Balance Sheets.

The fair value of the investments is determined using Level 1 inputs. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement dates. The investments are recorded at fair value on the Condensed Consolidated Balance Sheets.

20. SEGMENT AND GEOGRAPHIC INFORMATION AND MAJOR CUSTOMERS

The Company manages operations on a company-wide basis, thereby making determinations as to the allocation of resources in total rather than on a segment-level basis. The Company has designated reportable segments based on how management views its business. The Company does not segregate assets between segments for internal reporting. Therefore, asset-related information has not been presented. The reportable segments, as presented below, are consistent with the manner in which the Company reports its results to the chief operating decision maker.

The Company evaluates the performance of its segments based on net sales dollars and direct operating income (gross profit less freight out, sales commissions and direct selling and marketing expenses). The amounts in the following tables are obtained from reports used by senior management and do not include income taxes. Other expenses not allocated include unallocated selling and distribution expenses, unallocated costs of sales and unallocated corporate expenses. The accounting policies of the Company s segments are the same as those described in the summary of significant accounting policies set forth in Note 1 to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Net sales to external customers:				
North American Retail Grocery	$ 597,775	$ 592,359	$ 1,768,938	$ 1,489,014
Food Away From Home	94,601	98,673	280,726	284,633
Industrial and Export	106,262	104,694	291,327	268,942
Total	$ 798,638	$ 795,726	$ 2,340,991	$ 2,042,589
Direct operating income:				
North American Retail Grocery	$ 83,864	$ 82,404	$ 242,220	$ 230,901

Food Away From Home	12,892	12,293	39,454	33,837
Industrial and Export	16,108	16,713	51,727	45,546
Total	112,864	111,410	333,401	310,284
Unallocated selling and distribution expenses	(1,431)	(2,213)	(6,552)	(7,115)
Unallocated costs of sales (1)	2,377	1,760	2,174	(1,155)
Unallocated corporate expense	(51,582)	(62,992)	(165,578)	(159,174)
Operating income	62,228	47,965	163,445	142,840
Other expense	(21,953)	(17,170)	(49,582)	(58,262)
Income before income taxes	$ 40,275	$ 30,795	$ 113,863	$ 84,578

(1) Includes charges related to restructurings and other costs managed at corporate.

Geographic Information The Company had revenues from customers outside of the United States of approximately 11.8% and 12.8% of total consolidated net sales in the nine months ended September 30, 2015 and 2014, respectively, with 10.7% and 11.8% of total consolidated net sales going to Canada, respectively. The Company held 8.3% and 10.0% of its property, plant, and equipment outside of the United States as of September 30, 2015 and 2014, respectively.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Major Customers Wal-Mart Stores, Inc. and affiliates accounted for approximately 20.8% and 18.3% of consolidated net sales in the nine months ended September 30, 2015 and 2014, 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, 2015 and 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Products:				
Snacks	$ 172,581	$ 118,026	$ 484,461	$ 118,026
Beverages	101,622	124,004	305,292	365,886
Salad dressings	85,757	89,471	270,101	278,897
Soup and infant feeding	94,807	103,551	253,129	212,064
Beverage enhancers	80,028	85,548	244,557	256,551
Pickles	85,544	74,958	243,013	231,733
Mexican and other sauces	52,908	62,591	170,134	189,170
Cereals	37,253	40,055	114,540	120,348
Dry dinners	31,077	36,121	94,012	103,438
Aseptic products	26,600	27,313	80,570	74,908
Other products	17,096	19,911	43,595	50,691
Jams	13,365	14,177	37,587	40,877
Total net sales	$ 798,638	$ 795,726	$ 2,340,991	$ 2,042,589

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

As of September 30, 2015, the Company s 2022 Notes are guaranteed, fully and unconditionally, as well as jointly and severally, by its Guarantor Subsidiaries. There are no significant restrictions on the ability of the parent company or any guarantor to obtain funds from its subsidiaries by dividend or loan. The following condensed supplemental consolidating financial information presents the results of operations, financial position and cash flows of the parent company, its Guarantor Subsidiaries, its non-guarantor subsidiaries and the eliminations necessary to arrive at the information for the Company on a consolidated basis as of September 30, 2015 and 2014, and for the three and nine months ended September 30, 2015, and 2014. The equity method has been used with respect to investments in subsidiaries. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

Condensed Supplemental Consolidating Balance Sheet

September 30, 2015

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$	$	$ 22,883	$	$ 22,883
Investments			8,032		8,032
Accounts receivable, net		191,323	22,308		213,631
Inventories, net		527,543	119,542		647,085
Deferred income taxes	6,019	14,677	7,948		28,644
Prepaid expenses and other current assets	18,140	9,105	14,458	(4,857)	36,846
Total current assets	24,159	742,648	195,171	(4,857)	957,121
Property, plant, and equipment, net	27,135	425,670	90,754		543,559
Goodwill		1,470,715	183,423		1,654,138
Investment in subsidiaries	2,360,279	492,098		(2,852,377)	
Intercompany accounts receivable (payable), net	709,369	(676,847)	(32,522)		
Deferred income taxes	10,166			(10,166)	
Intangible and other assets, net	54,261	480,631	154,012		688,904
Total assets	$ 3,185,369	$ 2,934,915	$ 590,838	$ (2,867,400)	$ 3,843,722

Liabilities and Stockholders Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 41,132	$ 236,135	$ 41,480	$ (4,857)	$ 313,890
Current portion of long-term debt	13,000	1,391	2,169		16,560
Total current liabilities	54,132	237,526	43,649	(4,857)	330,450
Long-term debt	1,303,750	1,070	2,442		1,307,262
Deferred income taxes		290,985	38,836	(10,166)	319,655
Other long-term liabilities	8,613	45,055	13,813		67,481
Stockholders equity	1,818,874	2,360,279	492,098	(2,852,377)	1,818,874
Total liabilities and stockholders equity	$ 3,185,369	$ 2,934,915	$ 590,838	$ (2,867,400)	$ 3,843,722

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Supplemental Consolidating Balance Sheet

December 31, 2014

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 18,706	$ 2	$ 33,273	$	$ 51,981
Investments			9,148		9,148
Accounts receivable, net	46	185,202	48,408		233,656
Inventories, net		471,189	122,909		594,098
Deferred income taxes	8,361	19,196	8,007		35,564
Prepaid expenses and other current assets	32,849	5,947	12,812	(26,619)	24,989
Total current assets	59,962	681,536	234,557	(26,619)	949,436
Property, plant, and equipment, net	28,411	416,104	99,263		543,778
Goodwill		1,464,999	202,986		1,667,985
Investment in subsidiaries	2,269,325	534,326		(2,803,651)	
Intercompany accounts receivable (payable), net	840,606	(771,836)	(68,770)		
Deferred income taxes	12,217			(12,217)	
Intangible and other assets, net	55,826	503,289	182,690		741,805