TreeHouse Foods, Inc.
Form 10-Q
August 08, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934**

For the Quarterly Period Ended June 30, 2013.

or

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

For the Transition Period from to
Commission File Number 001-32504

TreeHouse Foods, Inc.

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

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

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

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

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

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

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

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

Yes ¨ No x

Number of shares of Common Stock, $0.01 par value, outstanding as of July 31, 2013: 36,373,615

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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)

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 28,345	$ 94,407
Investments	7,551	
Receivables, net	115,604	124,648
Inventories, net	389,447	347,353
Deferred income taxes	8,245	7,998
Prepaid expenses and other current assets	20,044	14,005
Total current assets	569,236	588,411
Property, plant and equipment, net	419,872	425,307
Goodwill	1,067,068	1,073,191
Intangible assets, net	400,550	417,561
Other assets, net	19,757	21,403
Total assets	$ 2,476,483	$ 2,525,873
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 195,410	$ 185,086
Current portion of long-term debt	1,667	1,944
Total current liabilities	197,077	187,030
Long-term debt	813,224	898,100
Deferred income taxes	214,048	212,461
Other long-term liabilities	44,491	49,027
Total liabilities	1,268,840	1,346,618
Commitments and contingencies (Note 18)		
Stockholders equity:		
Preferred stock, par value $0.01 per share, 10,000 shares authorized, none issued		
Common stock, par value $0.01 per share, 90,000 shares authorized, 36,350 and 36,197 shares issued and outstanding, respectively	363	362
Additional paid-in capital	732,058	726,582
Retained earnings	510,489	468,951
Accumulated other comprehensive loss	(35,267)	(16,640)

Total stockholders equity		1,207,643		1,179,255
Total liabilities and stockholders equity	$	2,476,483	$	2,525,873

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(Unaudited)		(Unaudited)	
Net sales	$ 526,346	$ 527,421	$ 1,066,456	$ 1,051,232
Cost of sales	416,778	420,830	842,716	829,709
Gross profit	109,568	106,591	223,740	221,523
Operating expenses:				
Selling and distribution	31,394	33,858	63,796	68,152
General and administrative	29,106	22,704	56,579	49,308
Other operating (income) expense, net	(136)	(49)	1,282	411
Amortization expense	8,227	8,624	16,726	16,887
Total operating expenses	68,591	65,137	138,383	134,758
Operating income	40,977	41,454	85,357	86,765
Other expense (income):				
Interest expense	12,230	12,452	25,008	25,664
Interest income	(322)	(14)	(1,000)	(14)
Loss (gain) on foreign currency exchange	841	(450)	480	406
Other expense (income), net	345	1,970	(368)	1,509
Total other expense	13,094	13,958	24,120	27,565
Income before income taxes	27,883	27,496	61,237	59,200
Income taxes	9,318	7,985	19,698	17,615
Net income	$ 18,565	$ 19,511	$ 41,539	$ 41,585
Net earnings per common share:				
Basic	$ .51	$ .54	$ 1.14	$ 1.15
Diluted	$ .50	$ .53	$ 1.11	$ 1.12
Weighted average common shares:				
Basic	36,337	36,057	36,323	36,038
Diluted	37,373	37,132	37,312	37,113

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Net income	$ 18,565	$ 19,511	$ 41,539	$ 41,585
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(11,609)	(9,271)	(19,467)	(1,784)
Pension and post-retirement reclassification adjustment (1)	349	282	759	561
Derivative reclassification adjustment (2)	41	41	81	81
Other comprehensive (loss) income	(11,219)	(8,948)	(18,627)	(1,142)
Comprehensive income	$ 7,346	$ 10,563	$ 22,912	$ 40,443

(1) Net of tax of $217 and $177 for the three months ended June 30, 2013 and 2012, respectively, and $435 and $353 for the six months ended June 30, 2013 and 2012, respectively.

(2) Net of tax of $25 for the three months ended June 30, 2013 and 2012, respectively, and $51 for the six months ended June 30, 2013 and 2012, respectively.

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 41,539	$ 41,585
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	38,412	26,064
Amortization	16,726	16,887
Mark to market (gain) loss on derivative contracts	(499)	1,581
Mark to market gain on investments	(389)	
Excess tax benefits from stock-based compensation	(1,097)	(2,440)
Stock-based compensation	7,108	5,748
(Gain) loss on disposition of assets	(231)	1,263
Deferred income taxes	2,138	3,387
Other	557	1,408
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	7,730	2,655
Inventories	(43,488)	(12,285)
Prepaid expenses and other assets	(4,728)	2,399
Accounts payable, accrued expenses and other liabilities	6,264	6,366
Net cash provided by operating activities	70,042	94,618
Cash flows from investing activities:		
Purchase of investments	(7,585)	
Additions to property, plant and equipment	(35,641)	(30,019)
Additions to other intangible assets	(3,255)	(4,302)
Acquisition of business, net of cash acquired		(25,000)
Proceeds from sale of fixed assets	1,072	46
Net cash used in investing activities	(45,409)	(59,275)
Cash flows from financing activities:		
Borrowings under revolving credit facility	111,800	198,900
Payments under revolving credit facility	(195,800)	(160,400)
Payments on capitalized lease obligations	(1,149)	(1,033)
Net receipts (payments) related to stock-based award activities	(1,192)	(3,878)
Excess tax benefits from stock-based compensation	1,097	2,440
Net cash (used in) provided by financing activities	(85,244)	36,029
Effect of exchange rate changes on cash and cash equivalents	(5,451)	(407)
Net (decrease) increase in cash and cash equivalents	(66,062)	70,965
Cash and cash equivalents, beginning of period	94,407	3,279
Cash and cash equivalents, end of period	$ 28,345	$ 74,244

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the six months ended June 30, 2013

(Unaudited)

1. Basis of Presentation

The unaudited Condensed Consolidated Financial Statements included herein have been prepared by TreeHouse Foods, Inc. (the Company, we, us, or our), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) applicable to quarterly reporting on Form 10-Q. In our opinion, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as permitted by such rules and regulations. The Condensed Consolidated Financial Statements and related notes should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Results of operations for interim periods are not necessarily indicative of annual results. In the Condensed Consolidated Statements of Cash Flows, the Company reclassified the loss (gain) on foreign currency exchange into the other line in cash flows from operating activities, as the amounts are not material and this change will result in a presentation format that is consistent with others in our industry. This reclassification had no effect on operating cash flows, or total cash flows for the periods presented. In the Condensed Consolidated Balance Sheets, the Company reclassified the Assets held for sale line into the Prepaid expenses and other current assets line, as the amounts are not material. As a result of investing our excess cash in interest bearing accounts in 2013, we are earning interest income, and as a result, we have presented interest income as a separate line item in our Condensed Consolidated Statements of Income in 2013. To be consistent with the current year presentation, we have reclassified interest income, which had previously been presented net of interest expense. These reclassifications had no effect on reported net income, total assets, or cash flows.

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

A detailed description of the Company s significant accounting policies can be found in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

2. Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*, clarifying how entities are required to measure obligations resulting from joint and several liability arrangements and outlining the required disclosures around these liabilities. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company s joint and several guarantees of indebtedness as discussed in Note 11, Long-Term Debt, are guaranteed by our 100 percent owned subsidiaries. The Company does not believe this ASU will have a significant impact on the Company s financial statements.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,* which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income (AOCI). This ASU expands the disclosure requirements by requiring an entity to disaggregate the total change of each component of other comprehensive income (OCI) and present separately any reclassification adjustments and current period OCI. This ASU also requires disclosure of the individual income statement line items affected by the amounts reclassified out of AOCI. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. This ASU does not change the accounting for AOCI, and only requires new disclosures. See Note 14 for the required disclosures.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Restructuring

Soup restructuring - On August 7, 2012, following a strategic review of the soup category, the Company announced a restructuring plan that includes the closure of its Mendota, Illinois soup plant. Subsequently, the Company amended the plan to include reductions to the cost structure of the Pittsburgh, Pennsylvania facility by reorganizing and simplifying the soup business at the Pittsburgh facility. The restructuring is expected to reduce manufacturing costs by streamlining operations and transferring production to the Company s Pittsburgh, Pennsylvania soup plant. Production at the Mendota facility was primarily related to the North American Retail Grocery segment. Production ended as of December 31, 2012, with full plant closure in the second quarter of 2013. Total costs are expected to be approximately $26.7 million as detailed below, of which $5.6 million is expected to be in cash. The total expected costs increased from $20.5 million as of March 31, 2013, as estimates were refined and the scope of the restructuring was expanded to include the Company s conversion from the use of wells to city water. Expenses associated with the restructuring are primarily aggregated in the Other operating expense, net line of the Condensed Consolidated Statements of Income, with the exception of accelerated depreciation, which is recorded in Cost of sales.

Seaforth, Ontario, Canada - On August 7, 2012, the Company announced the closure of its salad dressing plant in Seaforth, Ontario, Canada and the transfer of production to facilities where the Company has lower production costs. Production at the Seaforth, Ontario facility is primarily related to the North American Retail Grocery segment and is expected to end in the fourth quarter of 2013, with full plant closure also expected in the fourth quarter of 2013. Total costs to close the Seaforth facility are expected to be approximately $12.3 million as detailed below, of which $5.6 million is expected to be in cash. The total expected costs decreased from $13.4 million, as of March 31, 2013, as estimates were refined. Expenses incurred associated with the facility closure are primarily aggregated in the Other operating expense, net line of the Condensed Consolidated Statements of Income. Certain costs, primarily accelerated depreciation, are recorded in Cost of sales.

During the third quarter of 2012, and concurrent with the restructurings as noted above, the Company reviewed the fixed assets for impairment at the product category level and no impairment was indicated. During the review, the useful lives of the related assets were reassessed and shortened to be consistent with the dates that production at the facilities were expected to end. The change in estimated useful lives related to the restructurings resulted in accelerated depreciation of $7.2 million and $12.7 million for the three and six months ended June 30, 2013, respectively.

Below is a summary of the restructuring costs:

	Soup Restructuring			
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	Cumulative Costs To Date	Total Expected Costs
	(In thousands)			
Accelerated depreciation	$ 5,833	$ 9,981	$ 16,684	$ 21,088
Severance and outplacement	(44)	(12)	745	816
Other closure costs	(536)	218	798	4,814
Total	$ 5,253	$ 10,187	$ 18,227	$ 26,718

	Seaforth Closure			
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	Cumulative Costs To Date	Total Expected Costs

	(In thousands)			
Accelerated depreciation	$ 1,356	$ 2,716	$ 6,724	$ 6,736
Severance and outplacement	200	496	2,745	2,772
Other closure costs	874	1,347	1,825	2,789
Total	$ 2,430	$ 4,559	$ 11,294	$ 12,297

Naturally Fresh restructuring - As disclosed in Note 4, the Company acquired substantially all of the assets of Naturally Fresh, Inc. (Naturally Fresh) in the second quarter of 2012. Subsequent to the acquisition, during the third quarter of 2012, the Company closed the trucking operations of Naturally Fresh that were acquired in the purchase.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Liabilities recorded as of June 30, 2013 associated with the restructurings of the Soup category, Seaforth facility, and Naturally Fresh relate to severance and are included in the Accounts payable and accrued expenses line of the Condensed Consolidated Balance Sheets. The table below presents a reconciliation of the severance liability as of June 30, 2013.

	Severance Liability (In thousands)
Balance as of January 1, 2013	$ 2,686
Expense	485
Payments	(2,088)
Foreign exchange	(62)
Adjustments	(43)
Balance as of June 30, 2013	$ 978

4. Acquisitions

On August 8, 2013, the Company announced it had entered into a definitive agreement to acquire all of the outstanding equity interests of Associated Brands Management Holdings Inc., Associated Brands Holdings Limited Partnership, Associated Brands GP Corporation and 6726607 Canada Ltd., (collectively, Associated Brands), a privately owned Canadian company and a leading private label manufacturer of powdered drinks, specialty teas and sweeteners, from TorQuest Partners LLC and other shareholders. The Company has agreed to pay CAD $187 million in cash for the business, subject to an adjustment for working capital. The acquisition of Associated Brands is expected to strengthen the Company s retail presence in private label dry grocery and will introduce a line of specialty tea products to complement its fast growing single serve coffee business. The transaction is expected to close in the third quarter of 2013, subject to the satisfaction of customary closing conditions, and will be financed through borrowings under the Company s existing $750 million credit facility.

On June 24, 2013, the Company announced it had entered into a definitive agreement to acquire all of the outstanding shares of Cains Foods, L.P. (Cains), a privately owned Ayer, Massachusetts based manufacturer of shelf stable mayonnaise, dressings and sauces. The Cains product portfolio offers retail and foodservice customers a wide array of packaging sizes, sold under both private label and branded products. The Company agreed to pay $35 million in cash for the business, subject to an adjustment for working capital and taxes. The acquisition is expected to expand the Company s footprint in the Northeast United States, enhance its foodservice presence, and enrich its packaging capabilities. The transaction closed on July 1, 2013 and was financed through borrowings under the Company s existing $750 million credit facility. The acquisition will be accounted for under the acquisition method of accounting. The required disclosures have not been provided as the initial accounting for the business combination was not complete prior to the issuance of these financial statements.

On November 30, 2012, the Company completed the acquisition of selected assets of the aseptic cheese and pudding business from Associated Milk Producers Inc. (AMPI), a dairy marketing cooperative based in New Ulm, Minnesota. The business was integrated into the Company s existing aseptic operations within its Food Away From Home segment, and increased the Company s presence in the aseptic category. The purchase price was $4 million. The acquisition was financed through borrowings under the Company s existing $750 million credit facility. Components of the acquisition include fixed assets and intangible assets such as customer lists, formulas and goodwill. The acquisition is being accounted for under the acquisition method of accounting and the results of operations are included in our financial statements from the date of acquisition. There were no acquisition costs. Due to the size and timing of this acquisition, it did not have a material impact on the Company s financial statements. As such, the Company has not presented pro forma disclosures. There have been no changes to the purchase price allocation in 2013.

On April 13, 2012, the Company completed its acquisition of substantially all the assets of Naturally Fresh, a privately owned Atlanta, Georgia based manufacturer of refrigerated dressings, sauces, marinades, dips and specialty items sold within each of our segments. The purchase price was approximately $26 million, net of cash. The acquisition was financed through borrowings under the Company s existing $750 million credit facility. The acquisition expanded the Company s refrigerated manufacturing and packaging capabilities, broadened its distribution footprint and further developed its presence within the growing category of fresh foods. Naturally Fresh s Atlanta facility, coupled with the Company s existing West Coast and Chicago based refrigerated food plants, is expected to allow the Company to more efficiently service customers from coast to coast. The acquisition is being accounted for under the acquisition method of accounting and the results of operations are included in our financial statements from the date of acquisition and are in each of our segments. Pro forma disclosures related to the transaction are not included since they are not considered material. There have been no changes to the purchase price allocation in 2013.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Investments

	June 30, 2013 (In thousands)
U.S. equity	$ 4,284
Non-U.S. equity	1,392
Fixed income	1,875
Total investments	$ 7,551

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

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

We consider temporary cash investments with an original maturity of three months or less to be cash equivalents. As of June 30, 2013 and December 31, 2012, $9.0 million and $94.1 million, respectively, represents cash and equivalents held in Canada in local currency, and is convertible into other currencies. The cash and equivalents held in Canada is expected to be used for general corporate purposes in Canada, including capital projects and acquisitions. During June 2013, the Company temporarily transferred $85.0 million from Canada to the U.S., a portion of which was used to pay down the revolving credit facility. In July 2013, the Company transferred the $85.0 million, plus interest, back to Canada.

For the six months ended June 30, 2013, we recognized net unrealized gains totaling $0.4 million that are included in the Interest income line of the Condensed Consolidated Statements of Income. For the three months ended June 30, 2013, we recognized an insignificant amount of net unrealized gains. Additionally, for the three and six months ended June 30, 2013, we recognized realized gains totaling $0.1 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.

6. Inventories

	June 30, 2013	December 31, 2012
	(In thousands)	
Raw materials and supplies	$ 134,299	$ 128,186
Finished goods	275,704	238,575
LIFO reserve	(20,556)	(19,408)

Total	$	389,447	$	347,353

Approximately $82.7 million and $77.7 million of our inventory was accounted for under the Last-in, First-out (LIFO) method of accounting at June 30, 2013 and December 31, 2012, respectively.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Property, Plant and Equipment

	June 30, 2013	December 31, 2012
	(In thousands)	
Land	$ 25,739	$ 25,517
Buildings and improvements	179,623	177,824
Machinery and equipment	488,706	478,394
Construction in progress	37,238	31,335
Total	731,306	713,070
Less accumulated depreciation	(311,434)	(287,763)
Property, plant and equipment, net	$ 419,872	$ 425,307

Depreciation expense was $20.0 million and $13.6 million for the three months ended June 30, 2013 and 2012, respectively, and $38.4 million and $26.1 million for the six months ended June 30, 2013 and 2012, respectively. Included in depreciation expense for the three and six months ended June 30, 2013 is $7.2 million and $12.7 million of accelerated depreciation, respectively.

8. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the six months ended June 30, 2013 are as follows:

	North American Retail Grocery	Food Away From Home	Industrial and Export	Total
		(In thousands)		
Balance at December 31, 2012	$ 845,216	$ 94,393	$ 133,582	$ 1,073,191
Currency exchange adjustment	(5,355)	(768)		(6,123)
Balance at June 30, 2013	$ 839,861	$ 93,625	$ 133,582	$ 1,067,068

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

The gross carrying amount and accumulated amortization of intangible assets other than goodwill as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013			December 31, 2012		
	Gross Carrying	Accumulated	Net Carrying	Gross Carrying	Accumulated	Net Carrying

	Amount	Amortization (In thousands)	Amount	Amount	Amortization (In thousands)	Amount
Intangible assets with indefinite lives:						
Trademarks	$ 31,363	$	$ 31,363	$ 32,805	$	$ 32,805
Intangible assets with finite lives:						
Customer-related	445,608	(119,359)	326,249	448,825	(107,761)	341,064
Non-compete agreements	120	(30)	90	120	(18)	102
Trademarks	20,810	(6,358)	14,452	20,810	(5,722)	15,088
Formulas/recipes	6,945	(5,094)	1,851	7,017	(4,631)	2,386
Computer software	46,240	(19,695)	26,545	43,339	(17,223)	26,116
Total	$ 551,086	$ (150,536)	$ 400,550	$ 552,916	$ (135,355)	$ 417,561

Amortization expense on intangible assets for the three months ended June 30, 2013 and 2012 was $8.2 million and $8.6 million, respectively, and $16.7 million and $16.9 million for the six months ended June 30, 2013 and 2012, respectively. Estimated amortization expense on intangible assets for 2013 and the next four years is as follows:

	(In thousands)
2013	$ 33,539
2014	$ 32,827
2015	$ 31,645
2016	$ 31,450
2017	$ 30,873

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Accounts Payable and Accrued Expenses

	June 30, 2013	December 31, 2012
	(In thousands)	
Accounts payable	$ 127,900	$ 121,404
Payroll and benefits	32,710	26,661
Interest and taxes	15,215	16,205
Health insurance, workers compensation and other insurance costs	7,374	6,879
Marketing expenses	5,607	7,180
Other accrued liabilities	6,604	6,757
Total	$ 195,410	$ 185,086

10. Income Taxes

Income tax expense was recorded at an effective rate of 33.4% and 32.2% for the three and six months ended June 30, 2013, respectively, compared to 29.0% and 29.8% for the three and six months ended June 30, 2012, respectively. The Company s effective tax rate is favorably impacted by an intercompany financing structure entered into in conjunction with the E.D. Smith Foods, Ltd. (E.D. Smith) acquisition in 2007. The increase in the effective tax rate for the three and six months ended June 30, 2013 as compared to 2012, is attributable to an increase in state tax expense and to the tax impact of a shift in revenues between tax jurisdictions.

During the second quarter of 2012, the IRS initiated an examination of TreeHouse Foods 2010 tax year and the Canadian Revenue Agency (CRA) initiated an examination of the E.D. Smith 2008, 2009, and 2010 tax years. During the second quarter of 2013, the IRS initiated an examination of TreeHouse Foods 2011 tax year. The TreeHouse Foods and E.D. Smith examinations are expected to be completed in 2013 or 2014. The Company has examinations in process with various state taxing authorities, which are expected to be completed in 2013 or 2014.

Management estimates that it is reasonably possible that the total amount of unrecognized tax benefits could decrease by as much as $9.4 million within the next 12 months, primarily as a result of the resolution of audits currently in progress and the lapsing of statutes of limitations.

11. Long-Term Debt

	June 30, 2013	December 31, 2012
	(In thousands)	
Revolving credit facility	$ 309,000	$ 393,000
High Yield Notes	400,000	400,000
Senior notes	100,000	100,000
Tax increment financing and other debt	5,891	7,044
Total debt outstanding	814,891	900,044
Less current portion	(1,667)	(1,944)

Total long-term debt	$	813,224	$	898,100

Revolving Credit Facility The Company is party to an unsecured revolving credit facility with an aggregate commitment of $750 million, of which $430.2 million was available as of June 30, 2013. The revolving credit facility matures September 23, 2016. In addition, as of June 30, 2013, there were $10.8 million in letters of credit under the revolving credit facility that were issued but undrawn. Our revolving credit facility contains various financial and other restrictive covenants and requires that the Company maintains certain financial ratios, including a leverage and interest coverage ratio. The Company is in compliance with all applicable covenants as of June 30, 2013. The Company s average interest rate on debt outstanding under its revolving credit facility for the three and six months ended June 30, 2013 was 1.53% and 1.60%, respectively.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

High Yield Notes The Company s 7.75% High Yield Notes in aggregate principal amount of $400 million are due March 1, 2018 (the High Yield Notes). The High Yield Notes are guaranteed, jointly and severally, by the Company s 100 percent owned subsidiary Bay Valley Foods, LLC (Bay Valley) and its 100 percent owned subsidiaries EDS Holdings, LLC; Sturm Foods, Inc. (Sturm Foods); and S.T. Specialty Foods. In addition, certain other of the Company s subsidiaries may become guarantors from time to time in accordance with the applicable Indenture and may fully, jointly, severally and unconditionally guarantee the Company s payment obligations under any series of debt securities offered. The Indenture governing the High Yield Notes provides, among other things, that the High Yield Notes will be senior unsecured obligations of the Company. The Indenture contains various restrictive covenants of which the Company is in compliance as of June 30, 2013.

Senior Notes The Company has outstanding $100 million in aggregate principal amount of 6.03% senior notes due September 30, 2013, issued in a private placement pursuant to a note purchase agreement (the Note Purchase Agreement) among the Company and a group of purchasers. The Note Purchase Agreement contains covenants that 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 June 30, 2013. The Company will continue to classify these notes as long term, as the Company has the ability and intent to refinance them on a long-term basis using our revolving credit facility or other long-term financing arrangements.

Tax Increment Financing The Company owes $1.8 million related to redevelopment bonds pursuant to a Tax Increment Financing Plan and has agreed to make certain payments with respect to the principal amount of the bonds through May 2019.

12. Earnings Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Weighted average common shares outstanding	36,337	36,057	36,323	36,038
Assumed exercise/vesting of equity awards (1)	1,036	1,075	989	1,075
Weighted average diluted common shares outstanding	37,373	37,132	37,312	37,113

(1) Incremental shares from stock-based compensation awards (equity awards) are computed by the treasury stock method. Equity awards, excluded from our computation of diluted earnings per share because they were anti-dilutive, were 0.7 million for the three and six months ended June 30, 2013, and 0.6 million for the three and six months ended June 30, 2012, respectively.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Stock-Based Compensation

Income before income taxes for the three and six month periods ended June 30, 2013 includes share-based compensation expense of $3.7 million and $7.1 million, respectively. Share-based compensation expense for the three and six month periods ended June 30, 2012 was $3.1 million and $5.7 million, respectively. The tax benefit recognized related to the compensation cost of these share-based awards was approximately $1.3 million and $2.6 million for the three and six months ended June 30, 2013, respectively, and $1.0 million and $1.8 million for the three and six month periods ended June 30, 2012, respectively.

The following table summarizes stock option activity during the six months ended June 30, 2013. Stock options are granted under our long-term incentive plan, and generally have a three year vesting schedule, which vest one-third on each of the first three anniversaries of the grant date. Stock options expire ten years from the grant date.

	Employee Options	Director Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value
	(In thousands)				(In thousands)
Outstanding, December 31, 2012	2,468	72	$ 33.19	4.4	$ 50,809
Granted	277		$ 65.96		
Forfeited	(3)		$ 61.41		
Exercised	(36)		$ 25.80		
Outstanding, June 30, 2013	2,706	72	$ 36.52	4.5	$ 80,738
Vested/expected to vest, at June 30, 2013	2,623	72	$ 35.65	4.4	$ 80,657
Exercisable, June 30, 2013	2,203	72	$ 30.63	3.5	$ 79,437

Compensation costs related to unvested options totaled $8.4 million at June 30, 2013 and will be recognized over the remaining vesting period of the grants, which averages 2.4 years. The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used to calculate the fair value of stock options issued in 2013 include the following: expected volatility of 30.21%, expected term of six years, risk free rate of 0.995% and no dividends. The average grant date fair value of stock options granted in the six months ended June 30, 2013 was $20.46. Stock options issued during the six months ended June 30, 2013 totaled 277 thousand. The aggregate intrinsic value of stock options exercised during the six months ended June 30, 2013 and 2012 was approximately $1.3 million and $1.7 million, respectively. The tax benefit recognized from stock option exercises was $0.5 million and $0.6 million for the six months ended June 30, 2013 and 2012, respectively.

In addition to stock options, the Company also has outstanding restricted stock units and performance unit awards. These awards are granted under our long-term incentive plan. Employee restricted stock unit awards vest based on the passage of time, and generally vest one-third on each anniversary of the grant date. Director restricted stock units generally vest on the first anniversary of the grant date. Certain directors have deferred receipt of their awards until their departure from the Board of Directors, or a specified date. The following table summarizes the restricted stock unit activity during the six months ended June 30, 2013.

	Employee Restricted Stock Units (In thousands)		Weighted Average Grant Date Fair Value	Director Restricted Stock Units (In thousands)		Weighted Average Grant Date Fair Value
Outstanding, at December 31, 2012	353	$	53.62	78	$	39.88
Granted	118	$	65.91	19	$	65.97
Vested	(142)	$	52.72	(2)	$	61.41
Forfeited	(14)	$	57.77	-	$	-
Outstanding, at June 30, 2013	315	$	58.45	95	$	44.27

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future compensation costs related to restricted stock units is approximately $14.7 million as of June 30, 2013, and will be recognized on a weighted average basis, over the next 2.2 years. The grant date fair value of the awards granted in 2013 is equal to the Company s closing stock price on the grant date. Vested awards during the six months ended June 30, 2013 and 2012 had a fair value on the vest date of $9.3 million and $8.5 million, respectively.

Performance unit awards are granted to certain members of management. These awards contain service and performance conditions. For each of the three performance periods, one third of the units will accrue, multiplied by a predefined percentage between 0% and 200%, depending on the achievement of certain operating performance measures. Additionally, for the cumulative performance period, a number of units will accrue, equal to the number of units granted, multiplied by a predefined percentage between 0% and 200%, depending on the achievement of certain operating performance measures, less any units previously accrued. Accrued units will be converted to stock or cash, at the discretion of the Compensation Committee, generally, on the third anniversary of the grant date. The Company intends to settle these awards in stock and has the shares available to do so. On March 2, 2013, based on achievement of operating performance measures, 1,225 performance units were converted into 2,450 shares of stock, a two to one conversion ratio. On June 28, 2013, based on achievement of operating performance measures, 32,371 performance units were converted into 28,308 shares of stock, an average conversion ratio of 0.87 shares for each performance unit. The following table summarizes the performance unit activity during the six months ended June 30, 2013:

	Performance Units (In thousands)	Weighted Average Grant Date Fair Value
Unvested, at December 31, 2012	165	$ 56.57
Granted	89	$ 65.65
Vested	(29)	$ 46.31
Forfeited	(4)	$ 46.46
Unvested, at June 30, 2013	221	$ 61.91

Future compensation cost related to the performance units is estimated to be approximately $12.3 million as of June 30, 2013, and is expected to be recognized over the next 2.7 years. The grant fair value of the awards is equal to the Company s closing stock price on the date of grant.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Accumulated Other Comprehensive Loss

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

	Foreign Currency Translation (1)	Unrecognized Pension and Postretirement Benefits (2)	Derivative Financial Instrument (3)	Accumulated Other Comprehensive Loss
		(In thousands)		
Balance at December 31, 2012	$ (2,007)	$ (14,525)	$ (108)	$ (16,640)
Other comprehensive loss	(19,467)			(19,467)
Reclassifications from accumulated other comprehensive loss		759	81	840
Other comprehensive (loss) income	(19,467)	759	81	(18,627)
Balance at June 30, 2013	$ (21,474)	$ (13,766)	$ (27)	$ (35,267)
Balance at December 31, 2011	$ (10,268)	$ (11,825)	$ (269)	$ (22,362)
Other comprehensive loss	(1,784)			(1,784)
Reclassifications from accumulated other comprehensive loss		561	81	642
Other comprehensive (loss) income	(1,784)	561	81	(1,142)
Balance at June 30, 2012	$ (12,052)	$ (11,264)	$ (188)	$ (23,504)

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

(2) The unrecognized pension and post-retirement benefits reclassification is presented net of tax of $435 and $353 for the six months ended June 30, 2013 and 2012, respectively.

(3) The derivative financial instrument reclassification is presented net of tax of $51 for the six months ended June 30, 2013 and 2012.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Reclassifications from Accumulated Other Comprehensive Loss				Affected line in The Condensed Consolidated Statements of Income
	Three months ended June 30,		Six months ended June 30,		
	2013	2012	2013	2012	
	(In thousands)		(In thousands)		
Derivative financial instrument	$ 66	$ 66	$ 132	$ 132	Interest expense
Income taxes	25	25	51	51	Income taxes
Net of tax	$ 41	$ 41	$ 81	$ 81	
Amortization of defined benefit pension items:					
Prior service costs	$ 96	$ 133	$ 193	$ 268	(a)
Unrecognized net loss	470	326	940	646	(a)
Other			61		
Total before tax	566	459	1,194	914	
Income taxes	217	177	435	353	Income taxes
Net of tax	$ 349	$ 282	$ 759	$ 561	

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost. See Note 15 for additional details.

15. Employee Retirement and Postretirement Benefits

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

Components of net periodic pension expense are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Service cost	$ 647	$ 633	$ 1,295	$ 1,266
Interest cost	628	591	1,255	1,182

Expected return on plan assets		(643)		(581)		(1,285)		(1,162)
Amortization of prior service costs		114		151		228		302
Amortization of unrecognized net loss		459		309		917		618
Net periodic pension cost	$	1,205	$	1,103	$	2,410	$	2,206

The Company contributed $4.9 million to the pension plans in the first six months of 2013. The Company does not expect to make additional contributions to the plans in 2013.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of net periodic postretirement expense are as follows:

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)			
Service cost	$ 5	$ 8	$ 10	$ 16
Interest cost	37	39	72	78
Amortization of prior service costs	(18)	(18)	(35)	(36)
Amortization of unrecognized net loss	11	14	23	28
Net periodic postretirement cost	$ 35	$ 43	$ 70	$ 86

The Company expects to contribute approximately $0.2 million to the postretirement health plans during 2013.

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

16. Other Operating (Income) Expense, Net

The Company incurred other operating (income) expense for the three and six months ended June 30, 2013 and 2012, which consisted of the following:

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)		(In thousands)	
Restructuring	$ (136)	$ (8)	$ 1,282	$ 419
Other expense		(41)		(8)
Total other operating (income) expense, net	$ (136)	$ (49)	$ 1,282	$ 411

17. Supplemental Cash Flow Information

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)	
Interest paid	$ 23,136	$ 24,166
Income taxes paid	$ 26,206	$ 17,482

Accrued purchase of property and equipment	$	4,795	$	3,187
Accrued other intangible assets	$	584	$	1,333
Accrued purchase price	$		$	956

Non-cash financing activities for the six months ended June 30, 2013 and 2012 include the settlement of 150,777 shares and 224,259 shares, respectively, of restricted stock, restricted stock units and performance units, where shares were withheld to satisfy the minimum statuary tax withholding requirements.

18. Commitments and Contingencies

Litigation, Investigations and Audits The Company is party in the ordinary course of business to certain claims, litigation, audits and investigations. The Company believes that it has established adequate reserves to satisfy any liability that may be incurred in connection with any such currently pending or threatened matters, none of which are significant. The settlement of any such currently pending or threatened matters is not expected to have a material impact on our financial position, annual results of operations or cash flows.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Derivative Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by derivative instruments include interest rate risk, foreign currency risk and commodity price risk. Derivative contracts are entered into for periods consistent with the related underlying exposure and do not constitute positions independent of those exposures.

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

Due to the Company s operations in Canada, we are exposed to foreign currency risks. The Company enters into foreign currency contracts to manage the risk associated with foreign currency cash flows. The Company s objective in using foreign currency contracts is to establish a fixed foreign currency exchange rate for the net cash flow requirements for purchases that are denominated in U.S. dollars. These contracts do not qualify for hedge accounting and changes in their fair value are recorded in the Condensed Consolidated Statements of Income, with their fair value recorded on the Condensed Consolidated Balance Sheets. As of June 30, 2013 and 2012, 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 a combination of derivative contracts, purchase orders and various short and long-term supply arrangements to manage commodity price risk. The majority of commodity forward contracts are not derivatives, and those that are, generally qualify for the normal purchase exception under the guidance for derivative instruments and hedging activities, and therefore are not subject to its provisions.

The Company s 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 purchase 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 purchase exception are used to manage the price risk associated with raw material costs. As of June 30, 2013, the Company had outstanding contracts for the purchase of 20,079 megawatts of electricity, expiring throughout 2013 and outstanding contracts for the purchase of 903,356 dekatherms of natural gas, expiring throughout 2013. As of June 30, 2013, there were 3.0 million gallons of outstanding diesel fuel contracts that expire in the second half of 2013.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Balance Sheet Location	Fair Value June 30, 2013	December 31, 2012
		(In thousands)	
Liability Derivative:			
Commodity contracts	Accounts payable and accrued expenses	$ 430	$ 929
		$ 430	$ 929

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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
		(In thousands)		(In thousands)	
Mark to market unrealized (loss) gain:					
Commodity contracts	Other expense (income), net	$ (274)	$ (2,098)	$ 499	$ (1,581)
Total unrealized (loss) gain		(274)	(2,098)	499	(1,581)
Realized (loss) gain					
Commodity contracts	Cost of sales		(187)		28
Commodity contracts	Selling and distribution	(163)	15	(129)	73
Total realized (loss) gain		(163)	(172)	(129)	101
Total (loss) gain		$ (437)	$ (2,270)	$ 370	$ (1,480)

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Fair Value

The following table presents the carrying value and fair value of our financial instruments as of June 30, 2013 and December 31, 2012:

	June 30, 2013		December 31, 2012		
	Carrying Value	Fair Value	Carrying Value	Fair Value	Level
	(In thousands)		(In thousands)		
Not recorded at fair value (liability):					
Revolving credit facility	$ (309,000)	$ (307,151)	$ (393,000)	$ (393,353)	2
Senior notes	$ (100,000)	$ (101,099)	$ (100,000)	$ (102,341)	2
High Yield Notes	$ (400,000)	$ (435,520)	$ (400,000)	$ (433,500)	2
Recorded on a recurring basis at fair value (liability) asset:					
Commodity contracts	$ (430)	$ (430)	$ (929)	$ (929)	2
Investments	$ 7,551	$ 7,551	$	$	1

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

The fair value of the revolving credit facility, senior notes, High Yield Notes and commodity contracts are determined using Level 2 inputs. Level 2 inputs are inputs other than quoted market prices that are observable for an asset or liability, either directly or indirectly. The fair value of the revolving credit facility and senior notes were estimated using present value techniques and market based interest rates and credit spreads. The fair value of the Company s High Yield Notes was estimated based on quoted market prices for similar instruments, where the inputs are considered Level 2, due to their infrequent trading volume.

The fair value of the commodity contracts are based on an analysis comparing the contract rates to the forward curve rates throughout the term of the contracts. The commodity contracts are recorded at fair value on the Condensed Consolidated Balance Sheets.

The fair value of the investments 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.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Segment and Geographic Information and Major Customers

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

The Company evaluates the performance of its segments based on net sales dollars and direct operating income (gross profit less freight out, sales commissions and direct selling and marketing expenses). The amounts in the following tables are obtained from reports used by senior management and do not include income taxes. Other expenses not allocated include unallocated selling and distribution expenses, unallocated costs of sales and unallocated corporate expenses. The accounting policies of the Company s segments are the same as those described in the summary of significant accounting policies set forth in Note 1 to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)		(In thousands)	
Net sales to external customers:				
North American Retail Grocery	$ 375,744	$ 371,500	$ 761,825	$ 750,541
Food Away From Home	85,675	87,885	167,488	163,234
Industrial and Export	64,927	68,036	137,143	137,457
Total	$ 526,346	$ 527,421	$ 1,066,456	$ 1,051,232
Direct operating income:				
North American Retail Grocery	$ 61,140	$ 54,899	$ 126,449	$ 116,504
Food Away From Home	11,958	10,479	22,858	20,276
Industrial and Export	13,509	8,302	25,914	19,300
Total	86,607	73,680	175,221	156,080
Unallocated selling and distribution expenses	(1,323)	(947)	(2,739)	(2,709)
Unallocated costs of sales (1)	(7,110)		(12,538)	
Unallocated corporate expense	(37,197)	(31,279)	(74,587)	(66,606)
Operating income	40,977	41,454	85,357	86,765
Other expense	(13,094)	(13,958)	(24,120)	(27,565)
Income before income taxes	$ 27,883	$ 27,496	$ 61,237	$ 59,200

(1) Primarily related to accelerated depreciation and other charges related to restructurings.

Geographic Information The Company had revenues to customers outside of the United States of approximately 13.4% and 13.3% of total consolidated net sales in the six months ended June 30, 2013 and 2012, respectively, with 12.1% and 12.1% going to Canada, respectively.

Major Customers Wal-Mart Stores, Inc. and affiliates accounted for approximately 19.5% and 20.0% of consolidated net sales in the six months ended June 30, 2013 and 2012, respectively. No other customer accounted for more than 10% of our consolidated net sales.

Product Information The following table presents the Company s net sales by major products for the three and six months ended June 30, 2013 and 2012.

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)		(In thousands)	
Products				
Non-dairy creamer	$ 79,963	$ 83,738	$ 171,137	$ 172,897

Pickles	85,466	88,624	156,376	159,500
Salad Dressings	81,503	77,529	154,282	140,646
Powdered drinks	71,419	52,340	140,114	105,673
Mexican and other sauces	63,234	63,428	121,405	115,069
Soup and Infant Feeding	36,926	52,684	92,004	124,623
Hot cereals	33,981	33,801	81,770	76,969
Dry dinners	28,586	28,189	57,780	61,364
Aseptic products	23,753	24,519	47,682	48,686
Jams	14,266	15,007	29,121	31,544
Other Products	7,249	7,562	14,785	14,261
Total net sales	$ 526,346	$ 527,421	$ 1,066,456	$ 1,051,232

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Guarantor and Non-Guarantor Financial Information

The Company s High Yield Notes are guaranteed by its 100 percent owned subsidiary Bay Valley and its 100 percent owned subsidiaries EDS Holdings, LLC, Sturm Foods and S.T. Specialty Foods. There are no significant restrictions on the ability of the parent company or any guarantor to obtain funds from its subsidiaries by dividend or loan. The following condensed supplemental consolidating financial information presents the results of operations, financial position and cash flows of the parent company, its guarantor subsidiaries, its non-guarantor subsidiaries and the eliminations necessary to arrive at the information for the Company on a consolidated basis as of June 30, 2013 and 2012, and for the three and six months ended June 30, 2013, and 2012. The equity method has been used with respect to investments in subsidiaries. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

Condensed Supplemental Consolidating Balance Sheet

June 30, 2013

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 18,809	$ 542	$ 8,994	$	$ 28,345
Investments			7,551		7,551
Receivables, net	132	96,783	18,689		115,604
Inventories, net		340,259	49,188		389,447
Deferred income taxes		8,115	130		8,245
Prepaid expenses and other current assets	26,782	11,564	2,026	(20,328)	20,044
Total current assets	45,723	457,263	86,578	(20,328)	569,236
Property, plant and equipment, net	14,088	373,157	32,627		419,872
Goodwill		959,440	107,628		1,067,068
Investment in subsidiaries	1,785,869	201,249		(1,987,118)	
Intercompany accounts receivable (payable) net	143,225	(78,377)	(64,848)		
Deferred income taxes	14,061			(14,061)	
Identifiable intangible and other assets, net	47,459	304,136	68,712		420,307
Total assets	$ 2,050,425	$ 2,216,868	$ 230,697	$ (2,021,507)	$ 2,476,483
Liabilities and Stockholders Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 18,557	$ 181,858	$ 15,323	$ (20,328)	$ 195,410
Current portion of long-term debt		1,664	3		1,667

Total current liabilities		18,557		183,522		15,326		(20,328)		197,077
Long-term debt		809,000		4,204		20				813,224
Deferred income taxes		2,181		211,826		14,102		(14,061)		214,048
Other long-term liabilities		13,044		31,447						44,491
Stockholders equity		1,207,643		1,785,869		201,249		(1,987,118)		1,207,643
Total liabilities and stockholders equity	$	2,050,425	$	2,216,868	$	230,697	$	(2,021,507)	$	2,476,483

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Supplemental Consolidating Balance Sheet

December 31, 2012

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$	$ 269	$ 94,138	$	$ 94,407
Accounts receivable, net	113	104,622	19,913		124,648
Inventories, net		301,286	46,067		347,353
Deferred income taxes		7,860	138		7,998
Prepaid expenses and other current assets	1,276	11,857	872		14,005
Total current assets	1,389	425,894	161,128		588,411
Property, plant and equipment, net	14,427	374,215	36,665		425,307
Goodwill		959,440	113,751		1,073,191
Investment in subsidiaries	1,740,451	209,833		(1,950,284)	
Intercompany accounts receivable (payable), net	267,016	(118,778)	(148,238)		
Deferred income taxes	13,275			(13,275)	
Identifiable intangible and other assets, net	48,797	315,258	74,909		438,964
Total assets	$ 2,085,355	$ 2,165,862	$ 238,215	$ (1,963,559)	$ 2,525,873
Liabilities and Shareholders Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ (3,579)	$ 175,139	$ 13,526	$	$ 185,086
Current portion of long-term debt		1,938	6		1,944
Total current liabilities	(3,579)	177,077	13,532		187,030
Long-term debt	893,000	5,079	21		898,100
Deferred income taxes	2,413	208,494	14,829	(13,275)	212,461
Other long-term liabilities	14,266	34,761			49,027
Shareholders equity	1,179,255	1,740,451	209,833	(1,950,284)	1,179,255
Total liabilities and shareholders equity	$ 2,085,355	$ 2,165,862	$ 238,215	$ (1,963,559)	$ 2,525,873

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Supplemental Consolidating Statement of Income

Three Months Ended June 30, 2013

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 471,138	$ 76,086	$ (20,878)	$ 526,346
Cost of sales		374,912	62,744	(20,878)	416,778
Gross profit		96,226	13,342		109,568
Selling, general and administrative expense	10,216	43,963	6,321		60,500
Amortization	1,321	5,756	1,150		8,227
Other operating income, net		(517)	381		(136)
Operating (loss) income	(11,537)	47,024	5,490		40,977
Interest expense	12,085	154	3,521	(3,530)	12,230
Interest income		(3,530)	(322)	3,530	(322)
Other income, net	(2)	543	645		1,186
(Loss) income before income taxes	(23,620)	49,857	1,646		27,883
Income taxes (benefit)	(15,812)	24,611	519		9,318
Equity in net income of subsidiaries	26,373	1,127		(27,500)	
Net income	$ 18,565	$ 26,373	$ 1,127	$ (27,500)	$ 18,565

Condensed Supplemental Consolidating Statement of Income

Three Months Ended June 30, 2012

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 463,960	$ 74,659	$ (11,198)	$ 527,421
Cost of sales		373,332	58,696	(11,198)	420,830
Gross profit		90,628	15,963		106,591
Selling, general and administrative expense	10,664	39,862	6,036		56,562

Amortization	1,190	6,201	1,233		8,624
Other operating expense, net		(49)			(49)
Operating (loss) income	(11,854)	44,614	8,694		41,454
Interest expense	12,391	60	3,556	(3,555)	12,452
Interest income		(3,555)	(14)	3,555	(14)
Other (income) expense, net		2,346	(826)		1,520
(Loss) income before income taxes	(24,245)	45,763	5,978		27,496
Income taxes (benefit)	(9,225)	15,629	1,581		7,985
Equity in net income of subsidiaries	34,531	4,397		(38,928)	
Net income	$ 19,511	$ 34,531	$ 4,397	$ (38,928)	$ 19,511

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Supplemental Consolidating Statement of Income

Six Months Ended June 30, 2013

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 957,072	$ 147,433	$ (38,049)	$ 1,066,456
Cost of sales		759,288	121,477	(38,049)	842,716
Gross profit		197,784	25,956		223,740
Selling, general and administrative expense	24,617	83,151	12,607		120,375
Amortization	2,599	11,808	2,319		16,726
Other operating expense, net		419	863		1,282
Operating (loss) income	(27,216)	102,406	10,167		85,357
Interest expense	24,579	438	7,045	(7,054)	25,008
Interest income		(7,054)	(1,000)	7,054	(1,000)
Other (income) expense, net	(2)	(146)	260		112
(Loss) income before income taxes	(51,793)	109,168	3,862		61,237
Income taxes (benefit)	(29,204)	47,808	1,094		19,698
Equity in net income of subsidiaries	64,128	2,768		(66,896)	
Net income	$ 41,539	$ 64,128	$ 2,768	$ (66,896)	$ 41,539

Condensed Supplemental Consolidating Statement of Income

Six Months Ended June 30, 2012

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 927,591	$ 146,587	$ (22,946)	$ 1,051,232
Cost of sales		738,184	114,471	(22,946)	829,709
Gross profit		189,407	32,116		221,523
Selling, general and administrative expense	24,643	80,286	12,531		117,460

Amortization	2,226	12,187	2,474		16,887
Other operating expense, net		411			411
Operating (loss) income	(26,869)	96,523	17,111		86,765
Interest expense	25,326	332	7,132	(7,126)	25,664
Interest income		(7,126)	(14)	7,126	(14)
Other (income) expense, net		1,535	380		1,915
(Loss) income before income taxes	(52,195)	101,782	9,613		59,200
Income taxes (benefit)	(19,861)	34,955	2,521		17,615
Equity in net income of subsidiaries	73,919	7,092		(81,011)	
Net income	$ 41,585	$ 73,919	$ 7,092	$ (81,011)	$ 41,585

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Supplemental Consolidating Statement of Comprehensive Income

Three Months Ended June 30, 2013

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 18,565	$ 26,373	$ 1,127	$ (27,500)	$ 18,565
Other comprehensive income:					
Foreign currency translation adjustments		(4,828)	(6,781)		(11,609)
Pension and post-retirement reclassification adjustment, net of tax		349			349
Derivatives reclassification adjustment, net of tax	41				41
Other comprehensive income	41	(4,479)	(6,781)		(11,219)
Equity in other comprehensive income of subsidiaries	(11,260)	(6,781)		18,041	
Comprehensive income	$ 7,346	$ 15,113	$ (5,654)	$ (9,459)	$ 7,346

Condensed Supplemental Consolidating Statement of Comprehensive Income

Three Months Ended June 30, 2012

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 19,511	$ 34,531	$ 4,397	$ (38,928)	$ 19,511
Other comprehensive income (loss):					
Foreign currency translation adjustments		(4,081)	(5,190)		(9,271)
Pension and post-retirement reclassification adjustment, net of tax		282			282
Derivative reclassification adjustment, net of tax	41				41
Other comprehensive income (loss)	41	(3,799)	(5,190)		(8,948)
Equity in other comprehensive income of	(8,989)	(5,190)		14,179	

subsidiaries

Comprehensive income	$ 10,563	$ 25,542	$ (793)	$ (24,749)	$ 10,563

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Supplemental Consolidating Statement of Comprehensive Income

Six Months Ended June 30, 2013

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 41,539	$ 64,128	$ 2,768	$ (66,896)	$ 41,539
Other comprehensive income (loss):					
Foreign currency translation adjustments		(8,115)	(11,352)		(19,467)
Pension and post-retirement reclassification adjustment, net of tax		759			759
Derivative reclassification adjustment, net of tax	81				81
Other comprehensive income (loss)	81	(7,356)	(11,352)		(18,627)
Equity in other comprehensive income of subsidiaries	(18,708)	(11,352)		30,060	
Comprehensive income	$ 22,912	$ 45,420	$ (8,584)	$ (36,836)	$ 22,912

Condensed Supplemental Consolidating Statement of Comprehensive Income

Six Months Ended June 30, 2012

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 41,585	$ 73,919	$ 7,092	$ (81,011)	$ 41,585
Other comprehensive income (loss):					
Foreign currency translation adjustments		(735)	(1,049)		(1,784)
Pension and post-retirement reclassification adjustment, net of tax		561			561
Derivative reclassification adjustment, net of tax	81				81
Other comprehensive income (loss)	81	(174)	(1,049)		(1,142)
Equity in other comprehensive income of subsidiaries	(1,223)	(1,049)		2,272	

Comprehensive income	$	40,443	$	72,696	$	6,043	$	(78,739)	$	40,443

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Supplemental Consolidating Statement of Cash Flows

Six Months Ended June 30, 2013

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	$ (15,554)	$ 153,551	$ (67,955)	$	$ 70,042
Cash flows from investing activities:					
Purchase of investments			(7,585)		(7,585)
Additions to property, plant and equipment	(156)	(31,175)	(4,310)		(35,641)
Additions to other intangible assets	(2,407)	(848)			(3,255)
Proceeds from sale of fixed assets		915	157		1,072
Net cash used in investing activities	(2,563)	(31,108)	(11,738)		(45,409)
Cash flows from financing activities:					
Borrowings under revolving credit facility	111,800				111,800
Payments under revolving credit facility	(195,800)				(195,800)
Payments on capitalized lease obligations		(1,149)			(1,149)
Intercompany transfer	121,021	(121,021)			
Net payments related to stock-based award activities	(1,192)				(1,192)
Excess tax benefits from stock-based compensation	1,097				1,097
Net cash provided by financing activities	36,926	(122,170)			(85,244)
Effect of exchange rate changes on cash and cash equivalents			(5,451)		(5,451)
Net increase in cash and cash equivalents	18,809	273	(85,144)		(66,062)
Cash and cash equivalents, beginning of period		269	94,138		94,407
Cash and cash equivalents, end of period	$ 18,809	$ 542	$ 8,994	$	$ 28,345

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TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Supplemental Consolidating Statement of Cash Flows

Six Months Ended June 30, 2012

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	$ (22,807)	$ 41,104	$ 76,321	$	$ 94,618
Cash flows from investing activities:					
Additions to property, plant and equipment	607	(25,526)	(5,100)		(30,019)
Additions to other intangible assets	(4,302)				(4,302)
Acquisition of business, net of cash acquired		(25,000)			(25,000)
Proceeds from sale of fixed assets		46			46
Net cash used in investing activities	(3,695)	(50,480)	(5,100)		(59,275)
Cash flows from financing activities:					
Borrowings under revolving credit facility	198,900				198,900
Payments under revolving credit facility	(160,400)				(160,400)
Payments on capitalized lease obligations		(1,033)			(1,033)
Intercompany transfer	(10,560)	10,560			
Excess tax benefits from stock-based compensation	2,440				2,440
Net payments related to stock-based award activities	(3,878)				(3,878)
Net cash provided by financing activities	26,502	9,527			36,029
Effect of exchange rate changes on cash and cash equivalents			(407)		(407)
Net increase in cash and cash equivalents		151	70,814		70,965
Cash and cash equivalents, beginning of period		6	3,273		3,279
Cash and cash equivalents, end of period	$	$ 157	$ 74,087	$	$ 74,244

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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. Our products include non-dairy powdered creamers, private label canned soups, refrigerated and shelf stable salad dressings and sauces, powdered drink mixes, single serve hot beverages, hot cereals, macaroni and cheese, skillet dinners, Mexican sauces, jams and pie fillings, pickles and related products, aseptic sauces, and liquid non-dairy creamer. We believe we are the largest manufacturer of pickles and non-dairy powdered creamer in the United States, and the largest manufacturer of private label salad dressings, powdered 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 six months ended June 30, 2013 and 2012. 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 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. The segment results are presented on a consistent basis with the manner in which the Company reports its results to the chief operating decision maker, and does not include an allocation of taxes and other corporate expenses, including those associated with restructurings. See Note 21 of the Condensed Consolidated Financial Statements for additional information on the presentation of our reportable segments.

Our current operations consist of the following:

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

Our Food Away From Home segment sells non-dairy powdered creamers; pickles and related products; Mexican sauces; refrigerated dressings; aseptic products; hot cereals; powdered drinks and single serve hot beverages to foodservice customers, including restaurant chains and food distribution companies, within the United States and Canada.

Our Industrial and Export segment includes the Company s co-pack business and non-dairy powdered creamer sales to industrial customers for use in industrial applications, including products for repackaging in portion control packages and for use as ingredients by other food manufacturers. The most common products sold in this segment include pickles and related products; Mexican sauces; infant feeding products; refrigerated dressings and single serve hot beverages. Export sales are primarily to industrial customers outside of North America.

The industry environment the Company operates in continues to be one that is challenged by the overall state of the economy, increased competition, and inconsistent volumes. These dynamics have manifested themselves in the operating results of TreeHouse and our peers, where the overall industry is experiencing continued volatility in sales and volumes.

Despite the challenging operating environment, the Company achieved a 1.4% increase in net sales for the six months ended June 30, 2013 as compared to the same period last year, due to additional sales from acquisitions and price increases. This increase was partially offset by a decrease in volume/mix driven primarily by the loss of certain soup business for a particular customer that will be reflected in the Company s results throughout the remainder of the year. For the three months ended June 30, 2013, the Company experienced a 0.2% decrease in net sales compared to the same period last year, due to decreased volume/mix, partially offset by additional sales from acquisitions and price increases. As previously stated, the decrease in volume/mix was primarily related to the loss of certain soup business for a particular customer. The loss of the soup business negatively impacted our net sales attributed to volume/mix by approximately 2.1% and 2.3% for the three and six months ended June 30, 2013, respectively. If not for the negative impact of the partial loss of soup business for a particular customer, the Company s consolidated change in net sales due to volume/mix would have been positive.

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Consistent with 2012, the Company continues to see sales and volumes shift to alternate retail channels, such as limited assortment and discount stores; however, the pace of the shift has slowed in the current year. The Company expects this trend to continue throughout 2013. In response to this continued shift, the Company has focused on lowering our cost to serve and aligned our offerings with shifting customer demands.

Total direct operating income, the measure of our segment profitability, improved to 16.5% and 16.4% of net sales for the three and six months ended June 30, 2013, respectively, representing a 250 and 160 basis point improvement for the respective periods as compared to the same periods last year. The increase in profitability is due to sales mix, pricing, cost containment, and reduced freight rates. The Company continues to experience volatility in energy and commodity prices, and expects that the volatility will continue with an overall upward trend.

Recent Developments

On August 8, 2013, the Company announced it had entered into a definitive agreement to acquire all of the outstanding equity interests of Associated Brands Management Holdings Inc., Associated Brands Holdings Limited Partnership, Associated Brands GP Corporation and 6726607 Canada Ltd., (collectively, Associated Brands), a privately owned Canadian company and a leading private label manufacturer of powdered drinks, specialty teas and sweeteners, from TorQuest Partners LLC and other shareholders. The Company has agreed to pay CAD $187 million in cash for the business, subject to an adjustment for working capital. The acquisition of Associated Brands is expected to strengthen the Company s retail presence in private label dry grocery and will introduce a line of specialty tea products to complement its fast growing single serve coffee business. Associated Brands has approximately $200 million in annual revenue. The transaction is expected to close in the third quarter of 2013, subject to the satisfaction of customary closing conditions, and will be financed through borrowings under the Company s existing $750 million credit facility.

On June 24, 2013, the Company announced it had entered into a definitive agreement to acquire all of the outstanding shares of Cains Foods, L.P. (Cains), a privately owned Ayer, Massachusetts based manufacturer of shelf stable mayonnaise, dressings and sauces, with approximately $80 million in annual revenue. The Cains product portfolio offers retail and foodservice customers a wide array of packaging sizes, sold under both private label and branded products. The Company agreed to pay $35 million in cash for the business, subject to an adjustment for working capital and taxes. The acquisition is expected to expand the Company s footprint in the Northeast United States, enhance its foodservice presence, and enrich its packaging capabilities. The transaction closed on July 1, 2013 and was financed through borrowings under the Company s existing $750 million credit facility.

The Company continues to monitor the soup restructuring and Seaforth closure. Total expected costs of the soup restructuring increased from $20.5 million as of March 31, 2013 to $26.7 million as of June 30, 2013, as estimates were refined and modifications to the plan were made to include the Company s conversion from Company owned and maintained wells to city water. Total expected costs of the Seaforth closure decreased to $12.3 million as of June 30, 2013 from $13.4 million as of March 31, 2013, as estimates were refined. While there were no significant changes in the plan, the expected closure date of the Seaforth facility has been extended to the fourth quarter of this year.

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Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)				(Dollars in thousands)			
Net sales	$ 526,346	100.0%	$ 527,421	100.0%	$ 1,066,456	100.0%	$ 1,051,232	100.0%
Cost of sales	416,778	79.2	420,830	79.8	842,716	79.0	829,709	78.9
Gross profit	109,568	20.8	106,591	20.2	223,740	21.0	221,523	21.1
Operating expenses:								
Selling and distribution	31,394	6.0	33,858	6.4	63,796	6.0	68,152	6.5
General and administrative	29,106	5.5	22,704	4.3	56,579	5.3	49,308	4.7
Other operating (income) expense, net	(136)		(49)		1,282	0.1	411	
Amortization expense	8,227	1.5	8,624	1.6	16,726	1.6	16,887	1.6
Total operating expenses	68,591	13.0	65,137	12.3	138,383	13.0	134,758	12.8
Operating income	40,977	7.8	41,454	7.9	85,357	8.0	86,765	8.3
Other expenses (income):								
Interest expense	12,230	2.3	12,452	2.4	25,008	2.4	25,664	2.5
Interest income	(322)	(0.1)	(14)		(1,000)	(0.1)	(14)	
Loss (gain) on foreign currency exchange	841	0.2	(450)	(0.1)	480		406	
Other expense (income), net	345	0.1	1,970	0.4	(368)		1,509	0.2
Total other expense	13,094	2.5	13,958	2.7	24,120	2.3	27,565	2.7
Income before income taxes	27,883	5.3	27,496	5.2	61,237	5.7	59,200	5.6
Income taxes	9,318	1.8	7,985	1.5	19,698	1.8	17,615	1.6
Net income	$ 18,565	3.5%	$ 19,511	3.7%	$ 41,539	3.9%	$ 41,585	4.0%

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Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Net Sales Second quarter net sales decreased 0.2%, to $526.3 million in 2013, compared to $527.4 million in the second quarter of 2012. The decrease is primarily driven by reductions in volume/mix related to the loss of certain soup business for a particular customer and volume/mix reductions in the aseptic products and pickles categories, partially offset by powdered drinks. This decrease in sales was partially offset by acquisitions and pricing activities. Net sales by segment are shown in the following table:

	Three Months Ended June 30,			
	2013	2012	$ Increase/ (Decrease)	% Increase/ (Decrease)
	(Dollars in thousands)			
North American Retail Grocery	$ 375,744	$ 371,500	$ 4,244	1.1%
Food Away From Home	85,675	87,885	(2,210)	(2.5)
Industrial and Export	64,927	68,036	(3,109)	(4.6)
Total	$ 526,346	$ 527,421	$ (1,075)	(0.2)%

Cost of Sales All expenses incurred to bring a product to completion are included in cost of sales. These costs include raw material 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 79.2% in the second quarter of 2013, compared to 79.8% in 2012. Contributing to the decrease in cost of sales as a percent of net sales was continued realization of favorable sales mix and operating efficiencies, partially offset by increased costs associated with sweeteners and thickeners, and $7.8 million of costs associated with restructurings and facility consolidations.

Operating Expenses Total operating expenses were $68.6 million in the second quarter of 2013, compared to $65.1 million in 2012.

Operating expenses in 2013 resulted from the following:

Selling and distribution expenses decreased $2.5 million, or 7.3%, in the second quarter of 2013 compared to 2012. This decrease was primarily due to decreased distribution and delivery costs resulting from efficiencies such as increased utilization of existing shipping capacity, strategic product positioning to reduce distribution expense, and greater use of rail shipments. Also contributing to the decrease were lower freight rates and volumes.

General and administrative expenses increased by $6.4 million in the second quarter of 2013 compared to 2012. This is primarily related to higher incentive compensation as incentive costs returned to normalized levels. Incentive compensation costs in 2012 were lower due to the Company s performance.

Other operating income in the second quarter of 2013 was $0.1 million, compared to an insignificant amount in 2012. The increase was primarily due to gains on the sale of equipment, partially offset by costs associated with the soup restructuring and Seaforth closure.

Amortization expense decreased $0.4 million in the second quarter of 2013 compared to 2012, due primarily to the complete amortization of several assets and projects, partially offset by the amortization of additional ERP system costs and intangible assets acquired in acquisitions.

Interest Expense Interest expense decreased slightly to $12.2 million in the second quarter of 2013, compared to $12.5 million in 2012, due to lower interest rates and debt levels.

Interest Income Interest income of $0.3 million relates to interest earned on the cash held by our Canadian subsidiary and gains on investments as discussed in Note 5 to our Condensed Consolidated Financial Statements.

Foreign Currency The Company s foreign currency impact was a $0.8 million loss for the second quarter of 2013, compared to a gain of $0.5 million in 2012, primarily due to fluctuations in currency exchange rates between the U.S. and Canadian dollar.

Other Expense (Income), Net Other expense was $0.3 million for the second quarter of 2013, compared to expense of $2.0 million in 2012, primarily consisting of mark to market losses on derivative contracts.

Income Taxes Income tax expense was recorded at an effective rate of 33.4% in the second quarter of 2013, compared to 29.0% in 2012. The increase in the effective tax rate for the three months ended June 30, 2013 as compared to 2012 is attributable to an increase in state tax expense and to the tax impact of a shift in revenues between tax jurisdictions.

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Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012 Results by Segment

North American Retail Grocery

	Three Months Ended June 30, 2013 Dollars	2013 Percent	2012 Dollars	2012 Percent
	(Dollars in thousands)			
Net sales	$ 375,744	100.0%	$ 371,500	100.0%
Cost of sales	291,193	77.5	291,373	78.4
Gross profit	84,551	22.5	80,127	21.6
Freight out and commissions	15,342	4.1	16,407	4.4
Direct selling and marketing	8,069	2.1	8,821	2.4
Direct operating income	$ 61,140	16.3%	$ 54,899	14.8%

Net sales in the North American Retail Grocery segment increased by $ 4.2 million, or 1.1%, in the second quarter of 2013 compared to 2012. The change in net sales from 2012 to 2013 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2012 Net sales	$ 371,500	
Volume/mix	2,531	0.7%
Pricing	968	0.3
Acquisitions	1,498	0.4
Foreign currency	(753)	(0.3)
2013 Net sales	$ 375,744	1.1%

The increase in net sales from 2012 to 2013 resulted primarily from increases in volume/mix and acquisitions. During the second quarter, the Company experienced volume/mix increases in the powdered drinks, Mexican sauces, and dressings categories, partially offset by volume/mix decreases in the soup and pickles categories. The lost volume/mix in the soup category is the most significant and accounts for approximately a 2.9% loss in the North American Retail Grocery volume/mix, and relates to the partial loss of business for a particular customer. The remainder of the categories account for a 3.6% gain in volume/mix.

Cost of sales as a percentage of net sales in the second quarter of 2013 decreased when compared to the second quarter of 2012, as a favorable sales mix and cost savings from operating efficiencies were partially offset by an increase in input costs such as sweeteners and thickeners. Cost of sales in the second quarter of 2013 was relatively flat on a dollar basis as compared to the second quarter of 2012.

Freight out and commissions paid to independent sales brokers were $15.3 million in the second quarter of 2013, compared to $16.4 million in 2012, a decrease of 6.5%, primarily due to increased efficiencies such as increased utilization of existing shipping capacity, strategic product positioning to reduce distribution expense, and greater use of rail shipments. Also contributing to the decrease were lower freight rates.

Direct selling and marketing expenses were $8.1 million in the second quarter of 2013, and $8.8 million in 2012.

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Food Away From Home

	Three Months Ended June 30,			
	2013		2012	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	$ 85,675	100.0%	$ 87,885	100.0%
Cost of sales	68,754	80.2	71,996	81.9
Gross profit	16,921	19.8	15,889	18.1
Freight out and commissions	3,024	3.5	3,125	3.6
Direct selling and marketing	1,939	2.3	2,285	2.6
Direct operating income	$ 11,958	14.0%	$ 10,479	11.9%

Net sales in the Food Away From Home segment decreased by $2.2 million, or 2.5%, in the second quarter of 2013 compared to the prior year. The change in net sales from 2012 to 2013 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2012 Net sales	$ 87,885	
Volume/mix	(7,294)	(8.3)%
Pricing	1,559	1.8
Acquisitions	3,657	4.2
Foreign currency	(132)	(0.2)
2013 Net sales	$ 85,675	(2.5)%

Net sales decreased during the second quarter of 2013, compared to 2012, primarily due to lower volume/mix in the aseptic and pickles categories, partially offset by acquisitions and increases in pricing.

Cost of sales as a percentage of net sales decreased to 80.2% in the second quarter of 2013, as compared to 81.9% in the second quarter of 2012, reflecting the rationalization of low margin aseptic business and cost savings from operating efficiencies that continued to be realized. The decrease in cost of sales in the second quarter of 2013 of $3.2 million is primarily related to decreased volumes.

Freight out and commissions paid to independent sales brokers were slightly lower in the second quarter of 2013, compared to 2012. Lower volume and reduced freight rates resulted in reduced costs. Freight costs did not decrease as much for Food Away From Home as they did for North American Retail Grocery, because most customers in the Food Away From Home segment pick up their products.

Direct selling and marketing was $1.9 million in the second quarter of 2013, and $2.3 million in 2012.

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Industrial and Export

	Three Months Ended June 30,			
	2013		2012	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	$ 64,927	100.0%	$ 68,036	100.0%
Cost of sales	49,721	76.6	57,461	84.5
Gross profit	15,206	23.4	10,575	15.5
Freight out and commissions	1,270	2.0	1,855	2.7
Direct selling and marketing	427	0.6	418	0.6
Direct operating income	$ 13,509	20.8%	$ 8,302	12.2%

Net sales in the Industrial and Export segment decreased $3.1 million, or 4.6%, in the second quarter of 2013, compared to the prior year. The change in net sales from 2012 to 2013 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2012 Net sales	$ 68,036	
Volume/mix	(4,634)	(6.8)%
Pricing	135	0.2
Acquisitions	1,403	2.0
Foreign currency	(13)	
2013 Net sales	$ 64,927	(4.6)%

The decrease in net sales is primarily due to decreases in volume/mix, partially offset by acquisitions. Lower sales in the non-dairy powdered creamer and soup and infant feeding categories, were partially offset by higher sales in the powdered drink category.

Cost of sales as a percentage of net sales decreased from 84.5% in the second quarter of 2012, to 76.6% in 2013, due to a shift in sales mix to higher margin products and lower operating costs resulting from plant efficiencies.

Freight out and commissions paid to independent sales brokers were $1.3 million in the second quarter of 2013, and $1.9 million 2012. This decrease was primarily due to lower volume.

Direct selling and marketing was $0.4 million in the second quarter of 2013, and $0.4 million in 2012.

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Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Net Sales Net sales increased 1.4% to $1,066.5 million in the first six months of 2013, compared to $1,051.2 million in the first six months of 2012. The increase is primarily driven by increases in pricing and the acquisitions. Net sales by segment are shown in the following table:

	Six Months Ended June 30,			
	2013	**2012**	**$ Increase/ (Decrease)**	**% Increase/ (Decrease)**
	(Dollars in thousands)			
North American Retail Grocery	$ 761,825	$ 750,541	$ 11,284	1.5%
Food Away From Home	167,488	163,234	4,254	2.6%
Industrial and Export	137,143	137,457	(314)	(0.2)%
Total	$ 1,066,456	$ 1,051,232	$ 15,224	1.4%

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 79.0% in the first six months of 2013, compared to 78.9% in 2012. Contributing to the increase in cost of sales, as a percent of net sales, was $13.7 million of costs associated with restructurings and facility consolidations, and lower than average margins associated with the Naturally Fresh acquisition, partially offset by operating efficiencies and lower input costs.

Operating Expenses Total operating expenses were $138.4 million during the first six months of 2013, compared to $134.8 million in 2012. The increase in 2013 resulted from the following:

Selling and distribution expenses decreased $4.4 million, or 6.4%, in the first six months of 2013 compared to 2012, primarily due to decreased distribution and delivery costs resulting from efficiencies such as increased utilization of existing shipping capacity, strategic product positioning to reduce distribution expense, and greater use of rail shipments. Also contributing to the decrease were lower freight rates and volume, partially offset by the acquisition of Naturally Fresh.

General and administrative expenses increased $7.3 million in the first six months of 2013, compared to 2012. The increase is primarily related to increases in incentive based compensation expense as incentive costs returned to normalized levels and the acquisition of Naturally Fresh.

Amortization expense decreased $0.2 million in the first six months of 2013, compared to the first six months of 2012, due primarily to the complete amortization of several assets and projects, partially offset by additional amortization from intangibles acquired in acquisitions.

Other operating expense was $1.3 million in the first six months of 2013, compared to $0.4 million in the first six months of 2012. Expenses in the first six months of 2013 primarily consist of costs related to restructurings and facility closures. Expenses in 2012 were primarily due to executor costs related to previously closed facilities.

Interest Expense Interest expense decreased to $25.0 million in the first six months of 2013, compared to $25.7 million in 2012, due to a decrease in interest rates and lower debt levels.

Interest Income Interest income of $1.0 million relates to interest earned on the cash held by our Canadian subsidiary and gains on investments as discussed in Note 5 to our Condensed Consolidated Financial Statements.

Foreign Currency The Company s foreign currency loss was $0.5 million for the six months ended June 30, 2013 compared to a loss of $0.4 million in 2012, due to fluctuations in currency exchange rates between the U.S. and Canadian dollar.

Other Expense (Income), Net Other income was $0.4 million in the first six months of 2013 compared to expense of $1.5 million in 2012, primarily due to mark to market gain on commodity contracts.

Income Taxes Income tax expense was recorded at an effective rate of 32.2% in the first six months of 2013, compared to 29.8% in 2012. The increase in the effective tax rate for the six months ended June 30, 2013 as compared to 2012 is attributable to an increase in state tax expense and to the tax impact of a shift in revenues between tax jurisdictions.

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Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012 Results by Segment

North American Retail Grocery

	Six Months Ended June 30, 2013 Dollars	2013 Percent	2012 Dollars	2012 Percent
	(Dollars in thousands)			
Net sales	$ 761,825	100.0%	$ 750,541	100.0%
Cost of sales	587,918	77.2	582,733	77.6
Gross profit	173,907	22.8	167,808	22.4
Freight out and commissions	30,786	4.0	34,639	4.6
Direct selling and marketing	16,672	2.2	16,665	2.3
Direct operating income	$ 126,449	16.6%	$ 116,504	15.5%

Net sales in the North American Retail Grocery segment increased by $11.3 million, or 1.5% in the first six months of 2013, compared to the first six months of 2012. The change in net sales from 2012 to 2013 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2012 Net sales	$ 750,541	
Volume/mix	(229)	%
Pricing	1,778	0.2
Acquisition	10,803	1.4
Foreign currency	(1,068)	(0.1)
2013 Net sales	$ 761,825	1.5%

The increase in net sales from 2012 to 2013 is primarily due to the acquisition of Naturally Fresh and increased pricing. Volume/mix decreased slightly in 2013 compared to 2012 as decreases in the soup, dry dinners, jams, and dressings categories were partially offset by increases in the powdered drinks, hot cereals, and Mexican sauces categories. The lost volume/mix in the soup category is the most significant and accounts for approximately a 3.2% loss of volume/mix and relates to the partial loss of business for a customer.

Cost of sales as a percentage of net sales decreased from 77.6% in the first six months of 2012, to 77.2% in 2013, due to sales mix, cost savings from operating efficiencies, and lower ingredient and energy costs, partially offset by higher packaging costs.

Freight out and commissions paid to independent sales brokers were $30.8 million in the first six months of 2013, compared to $34.6 million in 2012, a decrease of 11.1%, due to efficiencies such as increased utilization of existing shipping capacity, strategic product positioning to reduce distribution expense, and greater use of rail shipments. Also contributing to the decrease were lower freight rates and volume, partially offset by the acquisition of Naturally Fresh.

Direct selling and marketing expenses were $16.7 million in the first six months of 2013, compared to $16.7 million in 2012.

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Food Away From Home

	Six Months Ended June 30,			
	2013		2012	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	$ 167,488	100.0%	$ 163,234	100.0%
Cost of sales	134,844	80.5	132,790	81.3
Gross profit	32,644	19.5	30,444	18.7
Freight out and commissions	5,797	3.5	5,967	3.7
Direct selling and marketing	3,989	2.4	4,201	2.6
Direct operating income	$ 22,858	13.6%	$ 20,276	12.4%

Net sales in the Food Away From Home segment increased by $4.3 million, or 2.6%, in the first six months of 2013 compared to the prior year. The change in net sales from 2012 to 2013 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2012 Net sales	$ 163,234	
Volume/mix	(15,966)	(9.8)%
Pricing	3,465	2.1
Acquisition	16,944	10.4
Foreign currency	(189)	(0.1)
2013 Net sales	$ 167,488	2.6%

Net sales increased during the first six months of 2013, compared to 2012, as a result of the acquisition of Naturally Fresh and price increases, partially offset by volume/mix decreases in our aseptic, pickles, and Mexican sauces categories.

Cost of sales as a percentage of net sales decreased from 81.3% in the first six months of 2012, to 80.5% in 2013, due to the rationalization of low margin aseptic business, lower ingredient and energy costs, and cost savings from operating efficiencies, partially offset by higher packaging costs.

Freight out and commissions paid to independent sales brokers were $5.8 million in the first six months of 2013, compared to $6.0 million in 2012, due to decreased freight costs primarily driven by lower freight rates and lower volume. Freight and commissions were 3.5% of net sales, a slight decrease from 2012.

Direct selling and marketing was $4.0 million in the first six months of 2013, compared to $4.2 million in 2012.

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Industrial and Export

	Six Months Ended June 30, 2013		2012	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	$ 137,143	100.0%	$ 137,457	100.0%
Cost of sales	107,416	78.3	114,186	83.1
Gross profit	29,727	21.7	23,271	16.9
Freight out and commissions	2,915	2.1	3,162	2.3
Direct selling and marketing	898	0.7	809	0.6
Direct operating income	$ 25,914	18.9%	$ 19,300	14.0%

Net sales in the Industrial and Export segment decreased $0.3 million, or 0.2%, in the first six months of 2013 compared to the prior year. The change in net sales from 2012 to 2013 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2012 Net sales	$ 137,457	
Volume/mix	(3,716)	(2.7)%
Pricing	333	0.2
Acquisition	3,086	2.3
Foreign currency	(17)	
2013 Net sales	$ 137,143	(0.2)%

The decrease in net sales is primarily due to volume/mix decreases, partially offset by acquisitions. Volume/mix decreases were primarily in the soup and infant feeding categories, partially offset by increases in the powdered drinks category.

Cost of sales, as a percentage of net sales, decreased from 83.1% in the first six months of 2012, to 78.3% in 2013, primarily due to sales mix, cost savings from operating efficiencies and lower ingredient and energy costs, partially offset by higher packaging costs.

Freight out and commissions paid to independent sales brokers were $2.9 million in the first six months of 2013, compared to $3.2 million in 2012. This decrease is due to the decrease in volume, partially offset by acquisitions.

Direct selling and marketing was $0.9 million in the first six months of 2013, compared to $0.8 million in 2012.

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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 $430.2 million was available under the revolving credit facility as of June 30, 2013. See Note 11 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 and meet our 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:

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 41,539	$ 41,585
Depreciation and amortization	55,138	42,951
Mark to market gain on investments	(389)	
Stock-based compensation	7,108	5,748
Gain on disposition of assets	(231)	
Deferred income taxes	2,138	3,387
Changes in operating assets and liabilities, net of acquisitions	(34,222)	(865)
Other	(1,039)	1,812
Net cash provided by operating activities	$ 70,042	$ 94,618

Our cash provided by operations was $70.0 million in the first six months of 2013, compared to $94.6 million in 2012, a decrease of $24.6 million. The Company continues to generate consistent net income. The decrease in cash provided by operations was mainly attributable to changes in operating assets and liabilities, specifically a higher inventory balance as of June 30, 2013 as compared to the same period in the prior year. The increased inventory levels resulted from lower than expected sales volumes, as volatility in customer purchases continued. This decrease was partially offset by an increase in depreciation and amortization relating to non-cash charges associated with the restructurings and acquisitions.

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(In thousands)	
Cash flows from investing activities:		
Purchase of investments	$ (7,585)	$
Additions to property, plant and equipment	(35,641)	(30,019)
Additions to other intangible assets	(3,255)	(4,302)
Acquisition of business, net of cash acquired		(25,000)
Other	1,072	46
Net cash used in investing activities	$ (45,409)	$ (59,275)

In the first six months of 2013, cash used in investing activities decreased by $13.9 million, compared to 2012. The decrease in cash used in investing activities was mainly attributable to the acquisition of Naturally Fresh in 2012, partially offset by the purchase of investments with a portion of our cash in Canada and increased investments in property, plant and equipment in 2013.

We expect capital spending programs to be approximately $90 million in 2013. Capital spending in 2013 is focused on food safety, quality, productivity improvements, product line expansions at our North East, Pennsylvania facility, continued implementation of an Enterprise Resource Planning system, and routine equipment upgrades or replacements at our plants.

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	Six Months Ended June 30, 2013	2012
	(In thousands)	
Cash flows from financing activities:		
Borrowings under revolving credit facility	$ 111,800	$ 198,900
Payments under revolving credit facility	(195,800)	(160,400)
Net payments related to stock-based award activities	(1,192)	(3,878)
Other	(52)	1,407
Net cash (used in) provided by financing activities	$ (85,244)	$ 36,029

Net cash flow used in financing activities was $85.2 million in the first six months of 2013, compared to net cash provided by financing activities of $36.0 million in 2012. The Company s first six months is typically a strong cash flow generating period that allows the Company to pay down our revolving credit facility. When comparing the year over year borrowings under the revolving credit facility, 2013 is comparable to 2012 after considering the 2012 borrowings of $67.7 million for the repayment of cross border intercompany loans as well another $25 million for the acquisition of Naturally Fresh. When comparing the payments under our revolving credit facility, the year over year payments are comparable after considering the temporary transfer of $85 million of cash from Canada to the U.S., of which $40 million was used to pay down the revolving credit facility. In July 2013, the Company transferred the $85.0 million, plus interest, back to Canada, by drawing funds from its revolving credit facility. After considering the events described above, the Company would have had net cash used in financing activities of $45.2 million in 2013 and $56.7 million in 2012, reflecting net pay downs in our revolving credit facility resulting from our consistent net income and operating cash flows.

The cash held by E.D. Smith as cash and cash equivalents and short term investments is expected to be used for general corporate purposes in Canada, including capital projects and acquisitions. The cash relates to foreign earnings that, if repatriated, would result in a tax liability.

Cash provided by operating activities is used to pay down debt and fund investments in property, plant and equipment.

The Company s short-term financing needs are primarily to finance working capital during the year. As the Company continues to add new product categories to our portfolio, spikes in financing needs are lessened. Vegetable and fruit production are driven by harvest cycles, which occur primarily during the spring and summer as inventories of pickles and jams generally are at a low point in late spring and at a high point during the fall, increasing our working capital requirements. In addition, the Company builds inventories of salad dressings in the spring and soup in the summer months in anticipation of large seasonal shipments that begin in the second and third quarters, respectively. Non-dairy creamer inventory builds in the fall for the expected winter sales. 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 June 30, 2013, we had $309.0 million in borrowings outstanding under our revolving credit facility, $400 million of 7.75% High Yield Notes outstanding, $100 million of senior notes outstanding, and $5.9 million of tax increment financing and other obligations. In addition, at June 30, 2013, there were $10.8 million in letters of credit under the revolving credit facility that were issued but undrawn.

Our revolving credit facility provides for an aggregate commitment of $750 million, of which $430.2 million was available at June 30, 2013. Interest rates on debt outstanding under our revolving credit facility for the six months ended June 30, 2013 averaged 1.60%.

Our $100 million outstanding senior notes are due on September 30, 2013. The Company will continue to classify these notes as long-term, as the Company has the ability and intent to refinance them on a long-term basis, using the revolving credit facility or other long-term financing arrangements.

We are in compliance with applicable debt covenants as of June 30, 2013. From an interest coverage ratio perspective, the Company s actual ratio as of June 30, 2013 is nearly 50% higher than the minimum required level. As it relates to the leverage ratio, the Company was nearly 22.9% below the maximum level (where the maximum level is not increased in the event of an acquisition).

See Note 11 to our Condensed Consolidated Financial Statements for additional information regarding our indebtedness and related agreements.

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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.

See Note 18 to our Condensed Consolidated Financial Statements in Part I Item 1 of this Form 10-Q and Note 17 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 for more information about our commitments and contingent obligations.

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, 2012. There were no material changes to our critical accounting policies in the six months ended June 30, 2013.

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 intend 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 following the date of this report.

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, 2012 and from time to time in our filings with the Securities and Exchange Commission.

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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%.

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 (that expire in September 2013), providing an effective interest rate of 6.29%.

We do not hold any derivative financial instruments which could expose us to significant interest rate market risk, as of June 30, 2013. 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 $309.0 million under our revolving credit facility at June 30, 2013, each 1% rise in our interest rate would increase our interest expense by approximately $3.1 million annually.

Input Costs

The costs of raw materials, packaging materials, fuel, and energy 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. When comparing the second quarter of 2013 to the second quarter of 2012, price increases in packaging and commodity costs such as corn sweeteners and thickeners, were offset by price decreases in transportation and energy costs such as natural gas and diesel. 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.

We use a significant volume of fruits and vegetables in our operations as raw materials. Certain of these fruits and vegetables are purchased 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. If we are unable to buy the fruits and vegetables from local suppliers, we would purchase them from more distant locations, including other locations within the United States, Mexico or India, thereby increasing our production costs.

Changes in the prices of our products may lag behind changes in the costs of our products. Competitive pressures also may limit our ability to quickly raise prices in response to increased raw materials, packaging, fuel, and energy costs. Accordingly, if we are unable to increase our prices to offset increasing costs, our operating profits and margins could be materially 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 sales 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 six months ended June 30, 2013 the Company recognized a net loss of $20.0 million, of which a loss of $19.5 million was recorded as a component of Accumulated other comprehensive loss and a loss of $0.5 million was recorded on the Company s Condensed Consolidated Statements of Income within the Loss (gain) on foreign currency exchange line. For the six months ended June 30, 2012 the Company recognized a net loss of $2.2 million, of which a loss of $1.8 million was recorded as a component of Accumulated other comprehensive loss and a loss of $0.4 million was recorded on the Company s Condensed Consolidated Statements of Income within the Loss on foreign currency exchange line.

The Company enters 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 are entered into for the purchase of U.S. dollar denominated raw materials by our Canadian subsidiary. The Company had no foreign currency contracts outstanding as of June 30, 2013, or June 30, 2012.

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures to give reasonable assurance that information required to be disclosed in the Company s reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. These controls and procedures also give reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures.

As of June 30, 2013, the Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), together with management, conducted an evaluation of the effectiveness of the Company s disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures are effective.

There has been no change in the Company s internal control over financial reporting that occurred during the quarter ended June 30, 2013 that has materially affected or is reasonably 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, Illinois

We have reviewed the accompanying condensed consolidated balance sheet of TreeHouse Foods, Inc. and subsidiaries (the Company) as of June 30, 2013, and the related condensed consolidated statements of income and comprehensive income for the three and six month periods ended June 30, 2013 and 2012, and of cash flows for the six-month periods ended June 30, 2013 and 2012. This interim financial information is 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 information 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 information for it 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, 2012, and the related consolidated statements of income, comprehensive income, stockholders equity, and cash flows for the year then ended (not presented herein); and in our report dated February 21, 2013, 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, 2012 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

August 8, 2013

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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, 2012. 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, 2012.

Item 5. Other Information

None

Item 6. Exhibits

12.1	Computation of Ratio of Earnings to Fixed Changes.
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.

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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

August 8, 2013