TreeHouse Foods, Inc.
Form 10-Q
August 03, 2017
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2017.

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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting Company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

Number of shares of Common Stock, $0.01 par value, outstanding as of July 31, 2017: 57,188,303

Table of Contents

Part I — Financial Information

Item 1. Financial Statements

TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$174.2	$62.1
Investments	12.1	10.4
Receivables, net	352.7	429.0
Inventories, net	993.1	978.0
Assets held for sale	2.7	3.6
Prepaid expenses and other current assets	93.1	77.6
Total current assets	1,627.9	1,560.7
Property, plant, and equipment, net	1,296.3	1,359.3
Goodwill	2,454.2	2,447.2
Intangible assets, net	1,089.4	1,137.6
Other assets, net	42.1	41.0
Total assets	$6,509.9	$6,545.8
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$712.1	$626.8
Current portion of long-term debt	70.9	66.4
Total current liabilities	783.0	693.2
Long-term debt	2,568.4	2,724.8
Deferred income taxes	410.0	422.2
Other long-term liabilities	205.6	202.3
Total liabilities	3,967.0	4,042.5
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Preferred stock, par value $0.01 per share, 10.0 shares authorized, none issued	—	—
Common stock, par value $0.01 per share, 90.0 shares authorized, 57.2 and 56.8 shares issued and outstanding, respectively	0.6	0.6
Additional paid-in capital	2,093.9	2,071.9
Retained earnings	526.1	532.1
Accumulated other comprehensive loss	(77.7)	(101.3)
Total stockholders' equity	2,542.9	2,503.3

Total liabilities and stockholders’ equity	$ 6,509.9	$ 6,545.8

See Notes to Condensed Consolidated Financial Statements.

3

TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Net sales	$1,522.2	$1,541.4	$3,058.4	$2,811.6
Cost of sales	1,245.3	1,275.6	2,495.1	2,321.2
Gross profit	276.9	265.8	563.3	490.4
Operating expenses:				
Selling and distribution	94.8	104.3	199.4	189.8
General and administrative	83.1	78.1	162.2	172.7
Amortization expense	28.7	28.5	57.3	52.3
Other operating expense, net	94.0	3.3	100.8	5.0
Total operating expenses	300.6	214.2	519.7	419.8
Operating (loss) income	(23.7)	51.6	43.6	70.6
Other expense (income):				
Interest expense	31.8	31.5	61.5	57.2
Interest income	(0.3)	(0.6)	(3.1)	(3.4)
Gain on foreign currency exchange	(0.4)	(0.8)	(0.3)	(4.9)
Other expense (income), net	1.2	(0.7)	1.8	4.3
Total other expense	32.3	29.4	59.9	53.2
(Loss) income before income taxes	(56.0)	22.2	(16.3)	17.4
Income taxes	(21.8)	3.2	(10.3)	1.6
Net (loss) income	$(34.2)	$19.0	$(6.0)	$15.8
Net (loss) earnings per common share:				
Basic	$(0.60)	$0.34	$(0.11)	$0.29
Diluted	$(0.60)	$0.33	$(0.11)	$0.28
Weighted average common shares:				
Basic	57.0	56.6	57.0	54.6
Diluted	57.0	57.5	57.0	55.5

See Notes to Condensed Consolidated Financial Statements.

TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Net (loss) income	$(34.2)	$19.0	$(6.0)	$15.8
Other comprehensive income:				
Foreign currency translation adjustments	12.9	4.6	16.5	28.9
Pension and postretirement reclassification adjustment (1)	6.8	0.2	7.1	0.5
Other comprehensive income	19.7	4.8	23.6	29.4
Comprehensive (loss) income	$(14.5)	$23.8	$17.6	$45.2

(1) Net of tax of $4.2 million and $0.2 million for the three months ended June 30, 2017 and 2016, respectively, and $4.4 million and $0.3 million for the six months ended June 30, 2017 and 2016, respectively.

See Notes to Condensed Consolidated Financial Statements.

TREEHOUSE FOODS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Six Months Ended June 30,	
	2017	2016
	(Unaudited)	
Cash flows from operating activities:		
Net (loss) income	$(6.0)	$15.8
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	81.7	80.5
Amortization	57.3	52.3
Stock-based compensation	18.6	14.3
Amortization of deferred financing costs	4.0	3.6
Loss on divestiture	85.2	—
Mark-to-market loss on derivative contracts	2.5	3.0
Loss on disposition of assets	3.8	1.3
Deferred income taxes	(16.7)	(6.6)
Gain on foreign currency exchange	(0.3)	(4.9)
Write-down of tangible assets	1.5	—
Other	(1.3)	(0.8)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Receivables	77.2	13.6
Inventories	(65.7)	47.0
Prepaid expenses and other assets	(22.8)	(44.5)
Accounts payable, accrued expenses, and other liabilities	108.4	65.9
Net cash provided by operating activities	327.4	240.5
Cash flows from investing activities:		
Additions to property, plant, and equipment	(71.4)	(84.0)
Additions to intangible assets	(14.0)	(5.9)
Acquisitions, less cash acquired	—	(2,640.2)
Proceeds from sale of fixed assets	1.7	0.1
Proceeds from divestiture	19.3	—
Increase in restricted cash	—	(0.6)
Other	(0.6)	(0.5)
Net cash used in investing activities	(65.0)	(2,731.1)
Cash flows from financing activities:		
Borrowings under Revolving Credit Facility	130.0	114.2
Payments under Revolving Credit Facility	(251.0)	(196.2)
Proceeds from issuance of Term Loan A-2	—	1,025.0
Proceeds from issuance of 2024 Notes	—	775.0
Payments on capitalized lease obligations and other debt	(1.9)	(2.1)

Payment of deferred financing costs	—	(34.3)
Payments on Term Loans	(31.7)	(15.1)
Net proceeds from issuance of common stock	—	835.1
Receipts related to stock-based award activities	9.9	7.0
Payments related to stock-based award activities	(6.6)	(7.8)
Net cash (used in) provided by financing activities	(151.3)	2,500.8
Effect of exchange rate changes on cash and cash equivalents	1.0	6.5
Net increase in cash and cash equivalents	112.1	16.7
Cash and cash equivalents, beginning of period	62.1	34.9
Cash and cash equivalents, end of period	$174.2	$51.6

See Notes to Condensed Consolidated Financial Statements.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the six months ended June 30, 2017

(Unaudited)

1. BASIS OF PRESENTATION

The unaudited Condensed Consolidated Financial Statements included herein have been prepared by TreeHouse Foods, Inc. and its consolidated subsidiaries (the “Company,” “TreeHouse,” “we,” “us,” or “our”), pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to quarterly reporting on Form 10-Q. In our opinion, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted as permitted by such rules and regulations. Certain prior year amounts in the Condensed Consolidated Statements of Cash Flows have been reclassified to conform to the current period presentation. 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, 2016. Results of operations for interim periods are not necessarily indicative of annual results.

In the first quarter of 2017, the Company completed changes in its organizational structure that resulted in a change in how the Company manages its business and allocates resources. As a result, the Company revised its reportable segments to reflect how management currently reviews financial information and makes operating decisions. See Note 22 for additional details. All prior period amounts have been recast to reflect the change in reportable segments.

In the fourth quarter of 2016, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No 2016-09, Improvements to Employee Share-Based Payment Accounting. Under this ASU, excess tax benefits and deficiencies are no longer recognized as additional paid-in capital in the Condensed Consolidated Balance Sheets. The ASU requires recognition of excess tax benefits and deficiencies in the Condensed Consolidated Statements of Operations. As the Company adopted the ASU in the fourth quarter, any related adjustments were required to be reflected as of the beginning of the fiscal year of adoption. The results for the three and six months periods ended June 30, 2016 have been recast to reflect the adoption of the ASU as of January 1, 2016, resulting in income tax benefits of $3.3 million and $3.5 million, respectively, related to the recognition of excess tax benefits and deficiencies, which are included in the Income taxes line of the Condensed Consolidated Statements of Operations. The effect on basic and diluted net earnings per common share was $0.06 for the three and six months ended June 30, 2016. Additionally, the ASU requires excess tax benefits to be reported as a component of operating activities in the Condensed Consolidated Statements of Cash Flows. Excess tax benefits of $3.5 million were retrospectively reclassified from financing to operating activities in the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016. The effects of the adoption of the other provisions of this ASU were immaterial.

On February 1, 2016, the Company acquired all of the outstanding common stock of Ralcorp Holdings, Inc., the Missouri corporation through which the private brands business (“Private Brands Business”) of ConAgra Foods, Inc. was operated. Ralcorp Holdings, Inc. was renamed TreeHouse Private Brands, Inc. during the first quarter of 2016. The results of operations of the Private Brands Business are included in our financial statements from the date of acquisition and are included in the Baked Goods, Condiments, Meals, and Snacks segments, as applicable.

The Private Brands Business was on a 4-4-5 fiscal calendar during the second quarter of 2016, and June 26, 2016 was the fiscal period end closest to the Company's fiscal quarter end. This difference did not have a significant impact on the results of operations of the Private Brands Business. In the fourth quarter of 2016, the Company changed the fiscal year end of the Private Brands Business to December 31. The Company did not retrospectively apply the effects of this change to the three and six month periods ended June 30, 2016 due to impracticability, and believes the effects would be immaterial.

The preparation of our Condensed Consolidated Financial Statements in conformity with 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, 2016.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which revises how employers that sponsor defined benefit pension and other postretirement plans present net periodic benefit cost. The ASU requires an employer to present the service cost component in the same income statement line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of any subtotal of operating income. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The standard requires adoption on a retrospective basis for the presentation of net benefit cost components. The Company is currently assessing the impact that this standard will have upon adoption.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment, to eliminate the second step of the goodwill impairment test. This ASU requires an entity to measure a goodwill impairment loss as the amount by which the carrying value of a reporting unit exceeds its fair value. Additionally, an entity should include the income tax effects from any tax deductible goodwill on the carrying value of the reporting unit when measuring a goodwill impairment loss, if applicable. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The standard requires adoption on a prospective basis. The Company is currently assessing the impact that this standard will have upon adoption.

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash, to require that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts on the statement of cash flows. The Company currently classifies changes in restricted cash as an investing activity in the Consolidated Statements of Cash Flows. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The standard requires adoption on a retrospective basis. The Company is currently assessing the impact that this standard will have upon adoption, which is not expected to be significant.

In February 2016, the FASB issued ASU No. 2016-02, Leases, to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between existing GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under existing GAAP. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The standard requires that entities apply the effects of these changes using a modified retrospective approach, which includes a number of optional practical expedients. The Company is beginning to assess the impact that this standard will have upon adoption.

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

ASU during the first quarter of 2017, the impact of which was not significant.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which introduced a new framework to be used when recognizing revenue in an attempt to reduce complexity and increase comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The standard requires that entities apply the effects of these changes to all prior years presented, upon adoption, using either the full retrospective method, which presents the impact of the change separately in each prior year presented, or the modified retrospective method, which includes the cumulative changes to all prior years presented in beginning retained earnings in the year of initial adoption. The Company expects to use the modified retrospective method. The FASB also issued ASU No. 2016-10, Identifying Performance Obligations and Licensing, and ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients, in April 2016 and May 2016, respectively, which amend the guidance in ASU 2014-09 and have the same effective date as the original standard. The Company is currently assessing the impact that these standards will have on its accounting policies, processes, system requirements, internal controls, and disclosures using internal resources and the assistance of a third-party. The Company has established a project plan, completed an initial review of its customer contracts, and is considering impacted policies and processes. The Company has not yet determined the impact that these standards will have on our financial position and results of operations.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. RESTRUCTURING

Plant Closing Costs — The Company continually analyzes its plant network to align operations with the current and future needs of its customers. Facility closure decisions are made when the Company identifies opportunities to lower production costs or eliminate excess manufacturing capacity while maintaining a competitive cost structure, service levels, and product quality. Expenses associated with facility closures are primarily aggregated in the Other operating expense, net line of the Condensed Consolidated Statements of Operations, with the exception of asset-related costs, which are recorded in Cost of sales. The key information regarding the Company's announced facility closures is outlined in the table below.

Facility Location	Date of Closure Announcement	End of Production	Full Facility Closure	Primary Products Produced	Primary Segment(s) Affected	Total Costs to Close	Total Cash Costs (Proceeds) to Close
						(In millions)	
City of Industry, California	November 18, 2015	First quarter of 2016	Third quarter of 2016	Liquid non-dairy creamer and refrigerated salad dressings	Beverages, Condiments	$6.9	$ 3.8
Ayer, Massachusetts	April 5, 2016	First quarter of 2017	Third quarter of 2017	Spoonable dressings	Condiments	6.1	3.3
Azusa, California	May 24, 2016	First quarter of 2017	Third quarter of 2017	Bars and snack products	Snacks	18.5	15.1
Ripon, Wisconsin	May 24, 2016	Fourth quarter of 2016	Fourth quarter of 2016	Sugar wafer cookies	Baked Goods	0.8	(0.2)
Delta, British Columbia	November 3, 2016	Fourth quarter of 2017	First quarter of 2018	Frozen griddle products	Baked Goods	3.3	2.3
Battle Creek, Michigan	November 3, 2016	(1)	(1)	Ready-to-eat cereal	Meals	10.4	2.8

(1) The downsizing of this facility began in January 2017 and is expected to last approximately 15 months.

Total expected costs to close the City of Industry, California, Ayer, Massachusetts, Ripon, Wisconsin, and Delta, British Columbia facilities have been reduced by approximately $4.9 million, $0.4 million, $1.3 million, and $1.9 million, respectively, since the initial announcements, while total expected costs to close the Azusa, California facility have been increased by approximately $3.7 million. Total costs to restructure the Battle Creek, Michigan facility have increased by approximately $0.9 million since the initial announcement.

Below is a summary of the plant closing costs:

	Three Months Ended June 30,		Six Months Ended June 30,		Cumulative Costs To Date	Total Expected Costs
	2017	2016	2017	2016		
	(In millions)					
Asset-related	$(0.9)	$0.7	$3.5	$1.5	$ 13.7	$ 16.8
Employee-related	0.2	1.3	2.7	1.9	10.0	11.8
Other closure costs	7.8	1.0	10.3	1.1	14.8	17.4
Total	$7.1	$3.0	$16.5	$4.5	$ 38.5	$ 46.0

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Liabilities recorded as of June 30, 2017 associated with these plant closings relate to severance and the partial withdrawal from a multiemployer pension plan. The severance liability is included in the Accounts payable and accrued expenses line of the Condensed Consolidated Balance Sheets, while the multiemployer pension plan withdrawal liability is included in the Other long-term liabilities line of the Condensed Consolidated Balance Sheets. The table below presents a reconciliation of the liabilities as of June 30, 2017:

	Severance	Multiemployer Pension Plan Withdrawal	Other Costs	Total Liabilities
	(In millions)			
Balance as of December 31, 2016	$3.5	$ 0.8	$ —	$ 4.3
Expense	2.4	—	2.4	4.8
Payments	(3.2)	—	—	(3.2)
Adjustments	(0.3)	—	—	(0.3)
Balance as of June 30, 2017	$2.4	$ 0.8	$ 2.4	$ 5.6

4. ACQUISITIONS

Private Brands Business

On February 1, 2016, the Company acquired the Private Brands Business, which is primarily engaged in manufacturing, distributing, and marketing private label products to retail grocery, food away from home, and industrial and export customers. The business's primary product categories include snacks, retail bakery, pasta, cereal, bars, and condiments. The purchase price, after considering working capital adjustments, was approximately $2,644.4 million, net of acquired cash. The acquisition was funded by $835.1 million in net proceeds from a public sale of the Company's common stock, $760.7 million in net proceeds from a private issuance of senior unsecured notes ("2024 Notes"), and a new $1,025.0 million term loan ("Term Loan A-2"), with the remaining balance funded by borrowings from the Company's $900 million revolving credit facility ("Revolving Credit Facility"). The acquisition resulted in a broader portfolio of products and further diversified the Company's product categories.

The Private Brands Business acquisition is accounted for under the acquisition method of accounting and the results of operations are included in our Condensed Consolidated Financial Statements from the date of acquisition in the Baked Goods, Condiments, Meals, and Snacks segments. Included in the Company's Condensed Consolidated Statements of Operations are the Private Brands Business's net sales of approximately $1,286.6 million and income before income taxes of $32.3 million from the date of acquisition through June 30, 2016. Integration costs of $6.5 million, which are included in the Cost of sales and General and administrative expense lines of the Condensed Consolidated Statements of Operations, were included in determining income before income taxes.

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

	(In millions)
Cash	$ 43.3
Receivables	162.7
Inventory	443.7
Property, plant, and equipment	809.6
Customer relationships	510.9
Trade names	33.0
Software	19.6
Formulas	23.2
Other assets	50.2
Goodwill	1,141.2
Assets acquired	3,237.4
Deferred taxes	(152.8)
Assumed current liabilities	(246.6)
Assumed long-term liabilities	(150.3)
Total purchase price	$ 2,687.7

The Company allocated $496.1 million to customer relationships with retail grocery customers, which have an estimated life of 13 years, and $14.8 million to customer relationships with food away from home customers, which have an estimated life of 10 years. The Company allocated $33.0 million to trade names, which have an estimated life of 10 years. The Company allocated $23.2 million

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

to formulas, which have an estimated life of 5 years. The Company allocated $19.6 million to capitalized software with estimated lives of 1 to 5 years, depending on expected use. The aforementioned intangibles will be amortized over their expected useful lives. Indemnification assets related to taxes of approximately $13.8 million were also recorded. The Company increased the cost of acquired inventories by approximately $8.4 million, and expensed the amount as a component of cost of sales. The Company has allocated $555.0 million, $73.3 million, $413.8 million, and $97.9 million of goodwill to the Baked Goods, Condiments, Meals, and Snacks segments, respectively. Goodwill arises principally as a result of expansion opportunities and synergies across both new and legacy product categories. None of the goodwill resulting from this acquisition is tax deductible. The Company incurred approximately $35.2 million in acquisition costs in 2016 and none in 2017. These costs are included in the General and administrative expense line of the Condensed Consolidated Statements of Operations.

The fair values for customer relationships at the acquisition date were determined using the excess earnings method under the income approach. Trade name fair values were determined using the relief from royalty method, while the fair value of formulas was determined using the cost approach. Real property fair values were determined using the cost and market approaches, while the fair value of personal property was determined using the indirect cost approach. The fair value measurements of intangible assets are based on significant unobservable inputs, and thus represent Level 3 inputs. Significant assumptions used in assessing the fair values of intangible assets include discounted future cash flows, customer attrition rates, and royalty rates.

Since the preliminary purchase price allocation included in the Company’s Annual Report for the fiscal year ended December 31, 2016, the Company recorded purchase price adjustments related to taxes, resulting in an increase to goodwill of approximately $3.0 million in the first quarter of 2017. These adjustments did not impact the Condensed Consolidated Statements of Operations.

The following unaudited pro forma information shows the results of operations for the Company as if its acquisition of the Private Brands Business had been completed as of January 1, 2016. Adjustments have been made for the pro forma effects of depreciation and amortization of tangible and intangible assets recognized as part of the business combination, the issuance of common stock, interest expense related to the financing of the business combination, and related income taxes. Excluded from the 2016 pro forma results are $35.2 million of costs incurred by the Company in connection with the acquisition. The pro forma results may not necessarily reflect actual results of operations that would have been achieved, nor are they necessarily indicative of future results of operations.

	Six Months Ended June 30, 2016 (In millions, except per share data)
Pro forma net sales	$ 3,135.5
Pro forma net income	$ 37.5
Pro forma basic earnings per common share	$ 0.66
Pro forma diluted earnings per common share	$ 0.65

5. INVESTMENTS

	June 30, 2017	December 31, 2016
	(In millions)	
U.S. equity	$8.9	$ 7.6
Non-U.S. equity	2.1	1.8
Fixed income	1.1	1.0
Total investments	$12.1	$ 10.4

We determine the appropriate classification of our investments at the time of purchase and reevaluate such designation as of each balance sheet date. The Company accounts for investments in debt and marketable equity securities as held-to-maturity, available-for-sale, or trading, depending on their classification. The investments held by the Company are classified as trading securities and are stated at fair value, with changes in fair value recorded as a component of the Interest income or Interest expense line on the Condensed Consolidated Statements of Operations. 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.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Our investments include U.S. equity, non-U.S. equity, and fixed income securities that are classified as short-term investments on the Condensed Consolidated Balance Sheets. The U.S. equity, non-U.S. equity, and fixed income securities are classified as short-term investments as they have characteristics of other current assets and are actively managed. When securities are sold, their cost is determined based on the first-in, first-out ("FIFO") method.

6. INVENTORIES

	June 30, 2017	December 31, 2016
	(In millions)	
Raw materials and supplies	$448.3	$ 429.4
Finished goods	569.5	571.9
LIFO reserve	(24.7)	(23.3)
Total inventories	$993.1	$ 978.0

Inventory is generally accounted for under the FIFO method, and a portion is accounted for under the last-in, first-out ("LIFO") method and the weighted average costing approach. Approximately $93.0 million and $105.9 million of our inventory was accounted for under the LIFO method of accounting at June 30, 2017 and December 31, 2016, respectively. Approximately $113.3 million and $116.2 million of our inventory was accounted for using the weighted average costing approach at June 30, 2017 and December 31, 2016, respectively.

7. PROPERTY, PLANT, AND EQUIPMENT

	June 30, 2017	December 31, 2016
	(In millions)	
Land	$70.0	$71.2
Buildings and improvements	451.1	465.3
Machinery and equipment	1,250.5	1,324.5
Construction in progress	68.0	85.0
Total	1,839.6	1,946.0
Less accumulated depreciation	(543.3)	(586.7)
Property, plant, and equipment, net	$1,296.3	$1,359.3

Depreciation expense was $37.9 million and $44.9 million for the three months ended June 30, 2017 and 2016, respectively, and $81.7 million and $80.5 million for the six months ended June 30, 2017 and 2016, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

As a result of the changes in organizational structure completed in the first quarter of 2017, the Company has the following five operating segments, which are also its reporting units: Baked Goods, Beverages, Condiments, Meals, and Snacks. See Note 22 for more information.

The Company allocated the goodwill balance as of January 1, 2017 between the new reporting units using a relative fair value allocation approach. The change was considered a triggering event indicating a test for goodwill impairment was required as of January 1, 2017. The Company performed the first step of the impairment test, which did not result in the identification of any impairment losses. Changes in the carrying amount of goodwill for the six months ended June 30, 2017 are as follows:

	Baked Goods	Beverages	Condiments	Meals	Snacks	Total
	(In millions)					
Balance at January 1, 2017	$554.2	$ 713.2	$ 433.1	$470.6	$276.1	$2,447.2
Purchase price adjustments	1.4	—	0.2	1.1	0.3	3.0
Foreign currency exchange adjustments	—	1.7	2.3	—	—	4.0
Balance at June 30, 2017	$555.6	$ 714.9	$ 435.6	$471.7	$276.4	$2,454.2

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The carrying amounts of our intangible assets with indefinite lives, other than goodwill, as of June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017	December 31, 2016
	(In millions)	
Trademarks	$22.1	$ 21.6
Total indefinite lived intangibles	$22.1	$ 21.6

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

The gross carrying amounts and accumulated amortization of intangible assets, with finite lives, as of June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In millions)			(In millions)		
Intangible assets with finite lives:						
Customer-related	$1,260.8	$ (317.4)	$943.4	$1,284.3	$ (293.3)	$991.0
Contractual agreements	3.0	(2.9)	0.1	3.0	(2.9)	0.1
Trademarks	69.4	(26.0)	43.4	69.6	(23.6)	46.0
Formulas/recipes	33.8	(15.6)	18.2	33.7	(12.8)	20.9
Computer software	128.6	(66.4)	62.2	115.7	(57.7)	58.0
Total finite lived intangibles	$1,495.6	$ (428.3)	$1,067.3	$1,506.3	$ (390.3)	$1,116.0

Total intangible assets, excluding goodwill, as of June 30, 2017 and December 31, 2016 were $1,089.4 million and $1,137.6 million, respectively. Amortization expense on intangible assets for the three months ended June 30, 2017 and 2016 was $28.7 million and $28.5 million, respectively, and $57.3 million and $52.3 million for the six months ended June 30, 2017 and 2016, respectively. Estimated amortization expense on intangible assets for 2017 and the next four years is as follows:

(In millions)

2017	$ 114.2
2018	108.1
2019	105.5
2020	103.0
2021	93.8

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	June 30, 2017	December 31, 2016
	(In millions)	
Accounts payable	$576.8	$ 458.1
Payroll and benefits	57.2	78.5
Interest	23.7	24.1
Taxes	10.2	31.0
Health insurance, workers' compensation, and other insurance costs	26.3	17.2
Marketing expenses	9.6	12.4
Other accrued liabilities	8.3	5.5
Total	$712.1	$ 626.8

13

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. INCOME TAXES

Income taxes were recorded at an effective rate of 38.9% and 63.2% for the three and six months ended June 30, 2017, respectively, compared to 14.4% and 9.2% for the three and six months ended June 30, 2016, respectively. The changes in effective tax rates for the three and six months ended June 30, 2017 as compared to 2016 are primarily a result of the income tax benefits on the Company's losses before income taxes for the three and six months ended June 30, 2017, the income tax benefits related to share-based payments, and the income tax benefits from the release of reserves for unrecognized tax benefits. Our effective tax rate may change from period to period based on recurring and non-recurring factors including the jurisdictional mix of earnings, enacted tax legislation, state income taxes, settlement of tax audits, and the expiration of the statute of limitations in relation to unrecognized tax benefits.

The Company's effective tax rate differs from the U.S. federal statutory tax rate primarily due to state tax expense, the benefits associated with the federal domestic production activities deduction, and an intercompany financing structure entered into in conjunction with the E.D. Smith Foods, Ltd. ("E.D. Smith") acquisition in 2007. In addition, the Company's effective tax rate for the six months ended June 30, 2017 reflects a discrete benefit of approximately 13.9% attributable to the vesting and exercise of share-based awards.

The Internal Revenue Service ("IRS") is currently examining the TreeHouse Foods, Inc. & Subsidiaries' 2015 tax year. The Canadian Revenue Agency ("CRA") is currently examining the 2008 through 2014 tax years of E.D. Smith. The CRA is also currently examining the 2013 tax year of Associated Brands, Inc. The CRA examinations are expected to be completed in 2017 or 2018. The Italian Agency of Revenue ("IAR") is currently examining the 2007 through 2009 and 2013 tax years of Pasta Lensi S.r.l. The IAR examinations are not expected to be completed prior to 2020 due to a backlog of appeals before the agency. The Company has examinations in process with various state taxing authorities, which are expected to be completed in 2017 and 2018.

Management estimates that it is reasonably possible that the total amount of unrecognized tax benefits could decrease by as much as $5.8 million within the next 12 months, primarily as a result of the resolution of audits currently in progress and the lapsing of statutes of limitations. Approximately $2.8 million of the $5.8 million would affect net income when settled.

11. LONG-TERM DEBT

	June 30, 2017	December 31, 2016
	(In millions)	
Revolving Credit Facility	$49.0	$ 170.0
Term Loan A	280.5	288.0
Term Loan A-1	175.0	180.0
Term Loan A-2	986.6	1,005.8
2022 Notes	400.0	400.0

2024 Notes	775.0	775.0
Other debt	3.1	5.7
Total outstanding debt	2,669.2	2,824.5
Deferred financing costs	(29.9)	(33.3)
Less current portion	(70.9)	(66.4)
Total long-term debt	$2,568.4	$2,724.8

On February 1, 2016, coincident with the closing of the acquisition of the Private Brands Business, the Company entered into the Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement (1) amended the maturity dates of the Revolving Credit Facility, Term Loan A, and Term Loan A-1 so that they are conterminous and mature on February 1, 2021, (2) provided for the issuance of Term Loan A-2, (3) is now a secured facility until, among other conditions, the Company reaches a leverage ratio of 3.5 and has no other pari-passu secured debt outstanding, and (4) increased credit spreads. The proceeds from Term Loan A-2 were used to fund a portion of the purchase price of the Private Brands Business.

The Revolving Credit Facility, Term Loan A, Term Loan A-1, and Term Loan A-2 are known collectively as the "Amended and Restated Credit Agreement." The Company's average interest rate on debt outstanding under its Amended and Restated Credit Agreement for the three months ended June 30, 2017 was 3.02%. Including the interest rate swap agreements described below with a weighted average fixed interest rate base of approximately 0.86% on $500 million, the average rate decreases to 2.98%.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Revolving Credit Facility — As of June 30, 2017, $801.1 million of the aggregate commitment of $900 million of the Revolving Credit Facility was available. Under the Amended and Restated Credit Agreement, the Revolving Credit Facility matures on February 1, 2021. In addition, as of June 30, 2017, there were $49.9 million in letters of credit under the Revolving Credit Facility that were issued but undrawn, which have been included as a reduction to the calculation of available credit.

12. STOCKHOLDERS' EQUITY

Common stock — The Company has authorized 90 million shares of common stock with a par value of $0.01 per share. No dividends have been declared or paid. As of June 30, 2017, there were 57,168,101 shares of common stock issued and outstanding. There is no treasury stock issued or outstanding.

Preferred Stock — The Company has authorized 10 million shares of preferred stock with a par value of $0.01 per share. No preferred stock has been issued.

13. 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,	
	2017	2016	2017	2016
	(In millions, except per share data)			
Net (loss) income	$ (34.2)	$ 19.0	$ (6.0)	$ 15.8
Weighted average common shares outstanding	57.0	56.6	57.0	54.6
Assumed exercise/vesting of equity awards (1)	—	0.9	—	0.9
Weighted average diluted common shares outstanding	57.0	57.5	57.0	55.5
Net (loss) earnings per basic share	$ (0.60)	$ 0.34	$ (0.11)	$ 0.29
Net (loss) earnings per diluted share	$ (0.60)	$ 0.33	$ (0.11)	$ 0.28

(1) Incremental shares from equity awards are computed using the treasury stock method. For the three and six months ended June 30, 2017, weighted average common shares outstanding is the same for the computations of basic and diluted earnings per share because the Company had a net loss for the periods. Equity awards, excluded from our computation of diluted earnings per share because they were anti-dilutive, were 1.1 million and 1.6 million for the

three and six months ended June 30, 2017, respectively, and 0.7 million and 1.0 million for the three and six months ended June 30, 2016, respectively.

14. STOCK-BASED COMPENSATION

The Board of Directors adopted, and the Company's stockholders approved, the "TreeHouse Foods, Inc. Equity and Incentive Plan" (the "Plan"). On April 27, 2017, the Plan was amended and restated to increase the number of shares available for issuance under the Plan by 3.8 million shares, effective February 14, 2017. The Plan is administered by our Compensation Committee, which consists entirely of independent directors. The Compensation Committee determines specific awards for our executive officers. For all other employees, if the committee designates, our Chief Executive Officer or such other officers will, from time to time, determine specific persons to whom awards under the Plan will be granted, and the terms and conditions of each award. The Compensation Committee or its designee, pursuant to the terms of the Plan, also will make all other necessary decisions and interpretations under the plan.

Under the Plan, the Compensation Committee may grant awards of various types of compensation, including stock options, restricted stock, restricted stock units, performance shares, performance units, other types of stock-based awards, and other cash-based compensation. The maximum number of shares available to be awarded under the Plan is approximately 16.1 million, of which approximately 5.0 million remain available at June 30, 2017.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Loss) income before income taxes for the three and six month periods ended June 30, 2017 includes stock-based compensation expense of $11.1 million and $18.6 million, respectively. Stock-based compensation expense for the three and six months ended June 30, 2016 was $8.1 million and $14.3 million, respectively. The tax benefit recognized related to the compensation cost of these share-based awards was approximately $4.1 million and $6.9 million for the three and six months ended June 30, 2017, respectively, and $3.0 million and $5.2 million for the three and six months ended June 30, 2016, respectively.

Stock Options — The following table summarizes stock option activity during the six months ended June 30, 2017. Stock options generally have a three year vesting schedule, which vest in approximately three equal installments on each of the first three anniversaries of the grant date, and expire ten years from the grant date.

	Employee Options	Director Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value
	(In thousands)				(In millions)
Outstanding, at December 31, 2016	2,069	20	$ 64.77	5.8	$ 28.9
Granted	452	—	84.53		
Forfeited	(58)	—	87.93		
Exercised	(228)	(16)	40.51		
Expired	(2)	—	85.17		
Outstanding, at June 30, 2017	2,233	4	70.81	6.6	31.5
Vested/expected to vest, at June 30, 2017	2,149	4	70.19	6.4	31.4
Exercisable, at June 30, 2017	1,425	4	61.53	5.0	30.7

	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
	(In millions)		(In millions)	
Compensation expense	$2.8	$1.9	$4.6	$3.5
Intrinsic value of stock options exercised	5.6	4.7	10.1	6.0
Tax benefit recognized from stock option exercises	2.2	1.7	3.9	2.1

Compensation costs related to unvested options totaled $18.0 million at June 30, 2017 and will be recognized over the remaining vesting period of the grants, which averages 2.3 years. The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used to calculate the fair value of stock options issued in 2017 include the following: weighted average expected volatility of 26.70%, expected term of six years, weighted average risk free rate of 2.07%, and no dividends. The weighted average grant date fair value of awards granted in 2017 was $24.86.

Restricted Stock Units — Employee restricted stock unit awards generally vest based on the passage of time. These awards generally vest in approximately three equal installments on each of the first three anniversaries 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 either their departure from the Board of Directors or a specified date. As of June 30, 2017, 100 thousand director restricted stock units have been earned and deferred.

The following table summarizes the restricted stock unit activity during the six months ended June 30, 2017:

	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, 2016	516	$ 87.03	104	$ 57.78
Granted	265	83.97	17	84.66
Vested	(163)	85.17	(2)	98.28
Forfeited	(44)	87.32	—	—
Outstanding, at June 30, 2017	574	86.11	119	60.86

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(In millions)		(In millions)	
Compensation expense	$7.1	$4.5	$11.8	$8.0
Fair value of vested restricted stock units	10.1	12.9	13.0	13.1
Tax benefit recognized from vested restricted stock units	3.7	4.6	4.8	4.7

Future compensation costs related to restricted stock units are approximately $36.7 million as of June 30, 2017 and will be recognized on a weighted average basis over the next 2.1 years. The grant date fair value of the awards is equal to the Company's closing stock price on the grant date.

Performance Units — Performance unit awards are granted to certain members of management. These awards contain service and performance conditions. For each of the three performance periods, one-third of the units will accrue, multiplied by a predefined percentage between 0% and 200%, depending on the achievement of certain operating performance measures. Additionally, for the cumulative performance period, a number of units will accrue, equal to the number of units granted multiplied by a predefined percentage between 0% and 200%, depending on the achievement of certain operating performance measures, less any units previously accrued. Accrued units will be converted to stock or cash, at the discretion of the Compensation Committee, generally, on the third anniversary of the grant date. The Company intends to settle these awards in stock and has the shares available to do so. On June 27, 2017, based on an achievement of operating performance measures, 72,335 performance units were converted into 81,556 shares of stock, an average conversion of 1.13 shares for each performance unit. The following table summarizes the performance unit activity during the six months ended June 30, 2017:

	Performance Units (In thousands)	Weighted Average Grant Date Fair Value
Unvested, at December 31, 2016	246	$ 85.16
Granted	114	84.66
Vested	(72)	79.89
Forfeited	(10)	88.10
Unvested, at June 30, 2017	278	86.21

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(In millions)		(In millions)	
Compensation expense	$1.2	$1.7	$2.2	$2.8
Fair value of vested performance units	6.5	11.4	6.5	11.4
Tax benefit recognized from performance units vested	2.5	4.1	2.5	4.1

Future compensation costs related to the performance units are estimated to be approximately $12.7 million as of June 30, 2017, and are expected to be recognized over the next 2.4 years. The grant date fair value of the awards is equal to the Company’s closing stock price on the date of grant.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss consists of the following components, all of which are net of tax, except for the foreign currency translation adjustment:

	Foreign Currency Translation (1)	Unrecognized Pension and Postretirement Benefits (2)	Accumulated Other Comprehensive Loss
	(In millions)		
Balance at December 31, 2016	$(89.4)	$ (11.9)	$ (101.3)
Other comprehensive income	16.5	—	16.5
Reclassifications from accumulated other comprehensive loss	—	7.1	7.1
Other comprehensive income	16.5	7.1	23.6
Balance at June 30, 2017	$(72.9)	$ (4.8)	$ (77.7)

	Foreign Currency Translation (1)	Unrecognized Pension and Postretirement Benefits (2)	Accumulated Other Comprehensive Loss
	(In millions)		
Balance at December 31, 2015	$(100.5)	$ (13.0)	$ (113.5)
Other comprehensive income	28.9	—	28.9
Reclassifications from accumulated other comprehensive loss	—	0.5	0.5
Other comprehensive income	28.9	0.5	29.4
Balance at June 30, 2016	$(71.6)	$ (12.5)	$ (84.1)

(1) The foreign currency translation adjustment is not net of tax, as the Company's investments in its foreign subsidiaries are considered to be permanent.

(2) The unrecognized pension and postretirement benefits reclassification is presented net of tax of $4.4 million and $0.3 million for the six months ended June 30, 2017 and 2016, respectively.

The Condensed Consolidated Statements of Operations 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 Operations
Three Months Ended	Six Months Ended	

	June 30, 2017	2016	June 30, 2017	2016	
	(In millions)		(In millions)		
Amortization of defined benefit pension and postretirement items:					
Prior service costs	$ —	$ —	$ 0.1	$ 0.1	(a)
Unrecognized net loss	0.2	0.4	0.6	0.7	(a)
Actuarial adjustment	2.1	—	2.1	—	(b)
Divestiture	8.7	—	8.7	—	Other operating expense, net
Total before tax	11.0	0.4	11.5	0.8	
Income taxes	4.2	0.2	4.4	0.3	Income taxes
Net of tax	$ 6.8	$ 0.2	$ 7.1	$ 0.5	

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

(b) Represents the actuarial adjustment that was recorded in conjunction with the divestiture of a pension plan and a postretirement benefit plan in the second quarter of 2017.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

16. 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. In connection with the divestiture of the canned soup and infant feeding (“SIF”) business in the second quarter of 2017, the Company divested a pension plan and a postretirement benefit plan. The net unfunded liability associated with these plans as of the closing date, which is included in the Other operating expense, net line of the Condensed Consolidated Statements of Operations, was $10.5 million.

Components of net periodic pension expense are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)		(In millions)	
Service cost	$1.0	$1.3	$2.2	$2.3
Interest cost	3.8	4.1	7.8	7.1
Expected return on plan assets	(4.4)	(4.5)	(9.1)	(7.7)
Amortization of unrecognized prior service cost	—	—	0.1	0.1
Amortization of unrecognized net loss	0.2	0.4	0.6	0.7
Net periodic pension cost	$0.6	$1.3	$1.6	$2.5

The Company does not expect to make any contributions to the pension plans in 2017.

Components of net periodic postretirement expense are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)		(In millions)	
Service cost	$—	$—	$—	$—
Interest cost	0.3	0.4	0.6	0.6
Amortization of unrecognized prior service cost	—	—	—	—

Amortization of unrecognized net loss	—	—	—	—
Net periodic postretirement cost	$0.3	$0.4	$0.6	$0.6

The Company expects to contribute approximately $1.6 million to the postretirement health plans during 2017.

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

17. OTHER OPERATING EXPENSE, NET

The Company incurred other operating expense for the three and six months ended June 30, 2017 and 2016, which consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)		(In millions)	
Restructuring	$8.8	$2.5	$15.6	$4.1
Loss on divestiture	85.2	—	85.2	—
Other	—	0.8	—	0.9
Total other operating expense, net	$94.0	$3.3	$100.8	$5.0

On May 22, 2017, the Company completed the divestiture of its SIF business. The SIF business is based in Pittsburgh, Pennsylvania and produced private label condensed and ready-to-serve soup, baby food, and gravies for the Meals segment. The divestiture of this

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

business did not meet the criteria to be presented as discontinued operations as it did not represent a strategic shift that would have a major effect on the Company’s results of operations. The transaction remains subject to working capital adjustments that are expected to be finalized in the third quarter of 2017.

18. SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended June 30,	
	2017	2016
	(In millions)	
Interest paid	$56.9	$33.3
Income taxes paid	21.7	46.4
Accrued purchase of property and equipment	14.9	11.5
Accrued other intangible assets	5.0	3.0

Non-cash financing activities for the six months ended June 30, 2017 and 2016 include $19.5 million and $24.0 million, respectively, related to the vesting of restricted stock, restricted stock units, and performance stock units.

19. COMMITMENTS AND CONTINGENCIES

Litigation, Investigations and Audits — On November 16, 2016, a purported TreeHouse shareholder filed a putative class action captioned Tarara v. TreeHouse Foods, Inc., et al., Case No. 1:16-cv-10632, in the United States District Court for the Northern District of Illinois against TreeHouse and certain of its officers. The complaint, amended on March 24, 2017, is purportedly brought on behalf of all purchasers of TreeHouse common stock from January 20, 2016 through and including November 2, 2016, asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and seeks, among other things, damages and costs and expenses. On December 22, 2016, another purported TreeHouse shareholder filed an action captioned Wells v. Reed, et al., Case No. 2016-CH-16359, in the Circuit Court of Cook County, Illinois, against TreeHouse and certain of its officers. This complaint, purportedly brought derivatively on behalf of TreeHouse, asserts state law claims against certain officers for breach of fiduciary duty, unjust enrichment, and corporate waste. On February 7, 2017, another purported TreeHouse shareholder filed an action captioned Lavin v. Reed, Case No. 17-cv-01014, in the Northern District of Illinois, against TreeHouse and certain of its officers. This complaint, like Wells, is purportedly brought derivatively on behalf of TreeHouse, and it asserts state law claims against certain officers for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and corporate waste.

All three complaints make substantially similar allegations (though the amended complaint in Tarara now contains additional detail). Essentially, the complaints allege that TreeHouse, under the authority and control of the individual defendants: (i) made certain false and misleading statements regarding the Company’s business, operations, and future prospects; and (ii) failed to disclose that (a) the Company’s private label business was underperforming; (b) the Company’s Flagstone business was underperforming; (c) the Company’s acquisition strategy was underperforming; (d) the Company had overstated its full-year 2016 guidance; and (e) TreeHouse’s statements lacked reasonable basis.

The complaints allege that these actions artificially inflated the market price of TreeHouse common stock during the class period, thus purportedly harming investors. We believe that these claims are without merit and intend to defend against them vigorously.

Since its initial docketing, the Tarara matter has been re-captioned as Public Employees' Retirement Systems of Mississippi v. TreeHouse Foods, Inc., et al., in accordance with the Court's order appointing Public Employees' Retirement Systems of Mississippi as the lead plaintiff. The Public Employees' defendants have filed a motion to dismiss, which has been fully briefed.

Additionally, due to the similarity of the complaints, the parties in Wells and Lavin have entered stipulations deferring the litigation until the earlier of (i) the court in Public Employees' entering an order resolving defendants' anticipated motion to dismiss therein or (ii) plaintiffs' counsel receiving notification of a settlement of Public Employees' or until otherwise agreed to by the Parties. The next status dates in Wells and Lavin are October 30, 2017 and August 4, 2017, respectively, though these dates may change.

In addition, 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, results of operations, or cash flows.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

20. DERIVATIVE INSTRUMENTS

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

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

In June 2016, the Company entered into $500 million of long-term interest rate swap agreements to lock into a fixed LIBOR interest rate base. Under the terms of the agreements, $500 million in variable-rate debt was swapped for a weighted average fixed interest rate base of approximately 0.86% for a period of 37 months, beginning on January 31, 2017 and ending on February 28, 2020. These agreements do not qualify for hedge accounting and changes in their fair value are recorded in the Condensed Consolidated Statements of Operations, with their fair value recorded on the Condensed Consolidated Balance Sheets.

Due to the Company’s foreign operations, we are exposed to foreign currency risk. The Company enters into foreign currency contracts to manage the risk associated with foreign currency cash flows. The Company’s objective in using foreign currency contracts is to establish a fixed foreign currency exchange rate for the net cash flow requirements for purchases that are denominated in U.S. dollars. These contracts do not qualify for hedge accounting and changes in their fair value are recorded in the Condensed Consolidated Statements of Operations, with their fair value recorded on the Condensed Consolidated Balance Sheets. As of June 30, 2017, the Company had $23.6 million of U.S. dollar foreign currency contracts outstanding, expiring throughout 2017.

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

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

Diesel contracts are used to manage the Company’s risk associated with the underlying cost of diesel fuel used to deliver products. Contracts for oil and plastics are used to manage the Company’s risk associated with the underlying commodity cost of a significant component used in packaging materials. Contracts for natural gas and electricity are used to manage the Company’s risk associated with the utility costs of its manufacturing facilities, and commodity contracts that are derivatives that do not meet the normal purchases and normal sales scope exception are used to manage the price risk associated with raw material costs. As of June 30, 2017, the Company had outstanding contracts for the purchase of 107,370 megawatts of electricity, expiring throughout 2017 and 2018; 14.0 million gallons of diesel, expiring throughout 2017 and early 2018; 3.1 million dekatherms of natural gas, expiring throughout 2017 and 2018; 0.3 million bushels of wheat, expiring throughout 2017 and early 2018; and 0.9 million bushels of corn, expiring throughout 2017 and early 2018.

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 Sheets:

	Balance Sheet Location	Fair Value June 30, 2017	December 31, 2016
		(In millions)	
Asset Derivatives			
Commodity contracts	Prepaid expenses and other current assets	$0.5	$ 1.0
Foreign currency contracts	Prepaid expenses and other current assets	0.3	0.7
Interest rate swap agreements	Prepaid expenses and other current assets	9.9	10.4
		$10.7	$ 12.1
Liability Derivatives			
Commodity contracts	Accounts payable and accrued expenses	$1.2	$ 0.5
Foreign currency contracts	Accounts payable and accrued expenses	0.4	—
		$1.6	$ 0.5

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

	Location of Gain (Loss) Recognized in Net (Loss) Income	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
		(In millions)		(In millions)	
Mark-to-market unrealized gain (loss):					
Commodity contracts	Other expense (income), net	$(0.1)	$0.5	$(1.2)	$0.9
Foreign currency contracts	Other expense (income), net	(0.7)	2.8	(0.8)	(2.3)
Interest rate swap agreements	Other expense (income), net	(1.5)	(1.6)	(0.5)	(1.6)
Total unrealized (loss) gain		(2.3)	1.7	(2.5)	(3.0)
Realized gain (loss):					
Commodity contracts		(0.7)	—	(0.2)	(1.0)

	Manufacturing related to Cost of sales and transportation related to Selling and distribution				
Foreign currency contracts	Cost of sales	1.0	(2.7)	1.2	(1.9)
Interest rate swap agreements	Interest expense	0.2	—	0.1	—
Total realized gain (loss)		0.5	(2.7)	1.1	(2.9)
Total loss		$(1.8)	$(1.0)	$(1.4)	$(5.9)

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

21. FAIR VALUE

The following table presents the carrying value and fair value of our financial instruments as of June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016		
	Carrying Value	Fair Value	Carrying Value	Fair Value	Level
	(In millions)		(In millions)		
Not recorded at fair value (liability):					
Revolving Credit Facility	$(49.0)	$(48.3)	$(170.0)	$(167.1)	2
Term Loan A	(280.5)	(280.9)	(288.0)	(288.1)	2
Term Loan A-1	(175.0)	(175.3)	(180.0)	(180.3)	2
Term Loan A-2	(986.6)	(988.3)	(1,005.8)	(1,007.4)	2
2022 Notes	(400.0)	(413.0)	(400.0)	(410.0)	2
2024 Notes	(775.0)	(825.4)	(775.0)	(809.9)	2
Recorded on a recurring basis at fair value (liability) asset:					
Commodity contracts	$(0.7)	$(0.7)	$0.5	$0.5	2
Foreign currency contracts	(0.1)	(0.1)	0.7	0.7	2
Interest rate swap agreements	9.9	9.9	10.4	10.4	2
Investments	12.1	12.1	10.4	10.4	1

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

The fair value of the Revolving Credit Facility, Term Loan A, Term Loan A-1, Term Loan A-2, 2022 Notes, 2024 Notes, commodity contracts, foreign currency contracts, and interest rate swap agreements are determined using Level 2 inputs. Level 2 inputs are inputs other than quoted market prices that are observable for an asset or liability, either directly or indirectly. The fair values of the Revolving Credit Facility, Term Loan A, Term Loan A-1, and Term Loan A-2 were estimated using present value techniques and market based interest rates and credit spreads. The fair values of the Company’s 2022 Notes and 2024 Notes were estimated based on quoted market prices for similar instruments, where the inputs are considered Level 2, due to their infrequent trading volume. The fair values of the commodity contracts, foreign currency contracts, and interest rate swap agreements are based on an analysis comparing the contract rates to the market rates at the balance sheet date. The commodity contracts, foreign currency contracts, and interest rate swap agreements are recorded at fair value on the Condensed Consolidated Balance Sheets.

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

22. SEGMENT AND GEOGRAPHIC INFORMATION AND MAJOR CUSTOMERS

In the first quarter of 2017, the Company completed changes in its organizational structure that resulted in a change in how the Company manages its business and allocates resources. Our reportable segments are now organized and managed by products: Baked Goods, Beverages, Condiments, Meals, and Snacks. Previously, our reportable segments were organized and managed by customer channels: North American Retail Grocery, Food Away From Home, and Industrial and Export. All prior period information has been recast to reflect this change.

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. Our segments are as follows:

Baked Goods – Our Baked Goods segment sells candy; cookies; crackers; in-store bakery products; pita chips; pretzels; refrigerated dough; and retail griddle waffles, pancakes, and French toast.

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Beverages – Our Beverages segment sells broths; liquid non-dairy creamer; non-dairy powdered creamers; powdered drinks; single serve hot beverages; specialty teas, and sweeteners.

Condiments – Our Condiments segment sells aseptic cheese and pudding products; jams, preserves, and jellies; mayonnaise; Mexican, barbeque, and other sauces; pickles and related products; refrigerated and shelf stable dressings and sauces; and table and flavored syrups.

Meals – Our Meals segment sells baking and mix powders; powdered soups and gravies; macaroni and cheese; pasta; ready-to-eat and hot cereals; and skillet dinners. Condensed and ready to serve soup and infant feeding products were sold within the Meals segment through the divestiture of the SIF business on May 22, 2017.

Snacks – Our Snacks segment sells bars; dried fruit; snack nuts; trail mixes; and other wholesome snacks.

The Company evaluates the performance of its segments based on net sales dollars and direct operating income. In conjunction with the change in segments, the Company revised its calculation of direct operating income to include direct general and administrative expenses. Direct operating income is now defined as gross profit less freight out, sales commissions, and direct selling, general, and administrative expenses. All prior period information has been recast to reflect this change. 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, general, and administrative expenses, unallocated costs of sales, and unallocated corporate expenses (amortization expense and other operating expense). 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, 2016.

Financial information relating to the Company’s reportable segments is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)		(In millions)	
Net sales to external customers:				
Baked Goods	$324.3	$322.9	$665.4	$542.4
Beverages	246.2	212.9	514.2	437.8
Condiments	344.9	340.5	655.0	636.1
Meals	288.4	317.0	612.4	589.4
Snacks	317.0	358.0	607.6	615.8
Unallocated	1.4	(9.9)	3.8	(9.9)
Total	$1,522.2	$1,541.4	$3,058.4	$2,811.6
Direct operating income:				
Baked Goods	$32.5	$34.8	$74.4	$63.6
Beverages	60.3	54.1	119.0	111.8
Condiments	36.0	41.9	67.7	77.0

Meals	33.8	29.4	67.8	55.8
Snacks	10.1	19.0	22.6	28.8
Total	172.7	179.2	351.5	337.0
Unallocated selling, general, and administrative expenses	(82.0)	(79.2)	(162.0)	(179.9)
Unallocated cost of sales (1)	6.9	(6.7)	8.4	(19.3)
Unallocated corporate expense and other	(121.3)	(41.7)	(154.3)	(67.2)
Operating (loss) income	(23.7)	51.6	43.6	70.6
Other expense	(32.3)	(29.4)	(59.9)	(53.2)
(Loss) income before income taxes	$(56.0)	$22.2	$(16.3)	$17.4

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

Geographic Information — The Company had revenues from customers outside of the United States of approximately 8.6% and 9.0% of total consolidated net sales in the six months ended June 30, 2017 and 2016, respectively, with 6.8% and 7.1% of total consolidated net sales in Canada, respectively. The Company held 11.6% and 11.2% of its property, plant, and equipment outside of the United States as of June 30, 2017 and 2016, respectively.

Major Customers — Walmart Stores, Inc. and affiliates accounted for approximately 20.6% and 18.7% of consolidated net sales in the six months ended June 30, 2017 and 2016, respectively. No other customer accounted for more than 10% of our consolidated net sales during these periods.

Product Information — The following table presents the Company's net sales by major products for the three and six months ended June 30, 2017 and 2016. In the first quarter of 2017, the Company changed the product categories to align with the changes in organizational structure described above. All prior period information has been recast to reflect this change.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)		(In millions)	
Products:				
Dressings and sauces	$250.9	$248.1	$488.2	$469.4
Snack nuts	196.5	205.7	384.2	348.0
Beverages	167.7	142.0	350.8	286.1
Retail bakery	162.0	159.0	344.6	272.3
Cereals and other meals	149.2	182.1	339.6	352.0
Baked products	162.3	163.9	320.8	270.1
Pasta and dry dinners	139.2	134.9	272.8	237.4
Trail mix and bars	121.9	142.4	227.2	257.9
Pickles	94.0	92.4	166.8	166.7
Beverage enhancers	78.5	70.9	163.4	151.7
Total net sales	$1,522.2	$1,541.4	$3,058.4	$2,811.6

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

23. GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

The Company's 2022 Notes and 2024 Notes are guaranteed fully and unconditionally, as well as jointly and severally, by its Guarantor Subsidiaries. The guarantees of the Guarantor Subsidiaries are subject to release in limited circumstances, only upon the occurrence of certain customary conditions. 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, 2017 and 2016, and for the three and six months ended June 30, 2017 and 2016. 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, 2017

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 107.0	$ 0.2	$ 67.0	$ —	$ 174.2
Investments	—	—	12.1	—	12.1
Accounts receivable, net	0.6	308.1	44.0	—	352.7
Inventories, net	—	867.8	125.3	—	993.1
Assets held for sale	—	2.7	—	—	2.7
Prepaid expenses and other current assets	61.3	13.7	18.1	—	93.1
Total current assets	168.9	1,192.5	266.5	—	1,627.9
Property, plant, and equipment, net	29.8	1,115.9	150.6	—	1,296.3
Goodwill	—	2,333.7	120.5	—	2,454.2
Investment in subsidiaries	5,129.6	549.2	—	(5,678.8)	-
Intercompany accounts receivable (payable), net	(174.8)	168.8	6.0	—	-
Deferred income taxes	22.0	—	—	(22.0)	-
Intangible and other assets, net	59.7	966.8	105.0	—	1,131.5
Total assets	$ 5,235.2	$ 6,326.9	$ 648.6	$ (5,700.8)	$ 6,509.9
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 45.2	$ 599.4	$ 67.5	$ —	$ 712.1
Current portion of long-term debt	69.5	1.3	0.1	—	70.9
Total current liabilities	114.7	600.7	67.6	—	783.0

Long-term debt	2,566.6	1.6	0.2	—	2,568.4
Deferred income taxes	—	406.1	25.9	(22.0)	410.0
Other long-term liabilities	11.0	188.9	5.7	—	205.6
Stockholders’ equity	2,542.9	5,129.6	549.2	(5,678.8)	2,542.9
Total liabilities and stockholders’ equity	$ 5,235.2	$ 6,326.9	$ 648.6	$ (5,700.8)	$ 6,509.9

26

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed Supplemental Consolidating Balance Sheet

December 31, 2016

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ —	$ 0.2	$ 61.9	$ —	$ 62.1
Investments	—	—	10.4	—	10.4
Accounts receivable, net	—	372.9	56.1	—	429.0
Inventories, net	—	869.6	108.4	—	978.0
Assets held for sale	—	3.6	—	—	3.6
Prepaid expenses and other current assets	23.6	36.7	17.3	—	77.6
Total current assets	23.6	1,283.0	254.1	—	1,560.7
Property, plant, and equipment, net	31.3	1,181.0	147.0	—	1,359.3
Goodwill	—	2,330.8	116.4	—	2,447.2
Investment in subsidiaries	5,031.5	519.4	—	(5,550.9)	—
Intercompany accounts receivable (payable), net	199.6	(196.9)	(2.7)	—	—
Deferred income taxes	20.7	—	—	(20.7)	—
Intangible and other assets, net	53.9	1,018.0	106.7	—	1,178.6
Total assets	$ 5,360.6	$ 6,135.3	$ 621.5	$ (5,571.6)	$ 6,545.8
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 61.3	$ 493.1	$ 72.4	$ —	$ 626.8
Current portion of long-term debt	63.1	3.2	0.1	—	66.4
Total current liabilities	124.4	496.3	72.5	—	693.2
Long-term debt	2,722.3	2.2	0.3	—	2,724.8
Deferred income taxes	—	418.3	24.6	(20.7)	422.2
Other long-term liabilities	10.6	187.0	4.7	—	202.3
Stockholders' equity	2,503.3	5,031.5	519.4	(5,550.9)	2,503.3
Total liabilities and stockholders' equity	$ 5,360.6	$ 6,135.3	$ 621.5	$ (5,571.6)	$ 6,545.8

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed Supplemental Consolidating Statement of Operations

Three Months Ended June 30, 2017

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ 1,439.9	$ 158.9	$ (76.6)	$ 1,522.2
Cost of sales	—	1,187.0	134.9	(76.6)	1,245.3
Gross profit	—	252.9	24.0	—	276.9
Selling, general, and administrative expense	34.6	132.9	10.4	—	177.9
Amortization expense	3.2	23.1	2.4	—	28.7
Other operating expense, net	—	92.8	1.2	—	94.0
Operating (loss) income	(37.8)	4.1	10.0	—	(23.7)
Interest expense	31.7	—	(0.2)	0.3	31.8
Interest income	—	0.3	(0.3)	(0.3)	(0.3)
Other expense (income), net	1.5	(0.1)	(0.6)	—	0.8
(Loss) income before income taxes	(71.0)	3.9	11.1	—	(56.0)
Income taxes (benefit)	(27.4)	3.1	2.5	—	(21.8)
Equity in net income (loss) of subsidiaries	9.4	8.6	—	(18.0)	—
Net (loss) income	$ (34.2)	$ 9.4	$ 8.6	$ (18.0)	$ (34.2)

Condensed Supplemental Consolidating Statement of Operations

Three Months Ended June 30, 2016

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ 1,454.5	$ 159.0	$ (72.1)	$ 1,541.4
Cost of sales	—	1,210.7	137.0	(72.1)	1,275.6
Gross profit	—	243.8	22.0	—	265.8
Selling, general, and administrative expense	22.9	143.2	16.3	—	182.4
Amortization expense	2.3	23.8	2.4	—	28.5
Other operating expense, net	—	2.8	0.5	—	3.3
Operating (loss) income	(25.2)	74.0	2.8	—	51.6

Interest expense	31.0	0.4	1.4	(1.3)	31.5
Interest income	—	(1.6)	(0.3)	1.3	(0.6)
Other expense (income), net	—	2.7	(4.2)	—	(1.5)
(Loss) income before income taxes	(56.2)	72.5	5.9	—	22.2
Income taxes (benefit)	(21.3)	24.7	(0.2)	—	3.2
Equity in net income (loss) of subsidiaries	53.9	6.1	—	(60.0)	—
Net income (loss)	$ 19.0	$ 53.9	$ 6.1	$ (60.0)	$ 19.0

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed Supplemental Consolidating Statement of Operations

Six Months Ended June 30, 2017

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ 2,895.3	$ 322.9	$ (159.8)	$ 3,058.4
Cost of sales	—	2,375.4	279.5	(159.8)	2,495.1
Gross profit	—	519.9	43.4	—	563.3
Selling, general, and administrative expense	62.1	279.5	20.0	—	361.6
Amortization expense	6.1	46.5	4.7	—	57.3
Other operating expense, net	—	99.4	1.4	—	100.8
Operating (loss) income	(68.2)	94.5	17.3	—	43.6
Interest expense	62.9	0.2	1.0	(2.6)	61.5
Interest income	(2.2)	(2.6)	(0.9)	2.6	(3.1)
Other expense (income), net	1.6	(0.1)	—	—	1.5
(Loss) income before income taxes	(130.5)	97.0	17.2	—	(16.3)
Income taxes (benefit)	(50.2)	36.5	3.4	—	(10.3)
Equity in net income (loss) of subsidiaries	74.3	13.8	—	(88.1)	—
Net (loss) income	$ (6.0)	$ 74.3	$ 13.8	$ (88.1)	$ (6.0)

Condensed Supplemental Consolidating Statement of Operations

Six Months Ended June 30, 2016

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ 2,659.3	$ 292.8	$ (140.5)	$ 2,811.6
Cost of sales	—	2,207.8	253.9	(140.5)	2,321.2
Gross profit	—	451.5	38.9	—	490.4
Selling, general, and administrative expense	76.6	259.6	26.3	—	362.5
Amortization expense	4.5	43.2	4.6	—	52.3
Other operating expense, net	—	4.1	0.9	—	5.0
Operating (loss) income	(81.1)	144.6	7.1	—	70.6

Interest expense	56.4	0.3	2.9	(2.4)	57.2
Interest income	(2.2)	(2.9)	(0.7)	2.4	(3.4)
Other (income) expense, net	—	(2.0)	1.4	—	(0.6)
(Loss) income before income taxes	(135.3)	149.2	3.5	—	17.4
Income taxes (benefit)	(51.3)	54.7	(1.8)	—	1.6
Equity in net income (loss) of subsidiaries	99.8	5.3	—	(105.1)	—
Net income (loss)	$ 15.8	$ 99.8	$ 5.3	$ (105.1)	$ 15.8

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed Supplemental Consolidating Statement of Comprehensive Income (Loss)

Three Months Ended June 30, 2017

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net (loss) income	$ (34.2)	$ 9.4	$ 8.6	$ (18.0)	$ (34.2)
Other comprehensive income:					
Foreign currency translation adjustments	—	—	12.9	—	12.9
Pension and postretirement reclassification adjustment, net of tax	—	6.8	—	—	6.8
Other comprehensive income	—	6.8	12.9	—	19.7
Equity in other comprehensive income (loss) of subsidiaries	19.7	12.9	—	(32.6)	—
Comprehensive (loss) income	$ (14.5)	$ 29.1	$ 21.5	$ (50.6)	$ (14.5)

Condensed Supplemental Consolidating Statement of Comprehensive Income (Loss)

Three Months Ended June 30, 2016

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ 19.0	$ 53.9	$ 6.1	$ (60.0)	$ 19.0
Other comprehensive income:					
Foreign currency translation adjustments	—	—	4.6	—	4.6
Pension and postretirement reclassification adjustment, net of tax	—	0.2	—	—	0.2
Other comprehensive income	—	0.2	4.6	—	4.8
Equity in other comprehensive income (loss) of	4.8	4.6	—	(9.4)	—

subsidiaries					
Comprehensive income (loss)	$ 23.8	$ 58.7	$ 10.7	$ (69.4)	$ 23.8

30

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed Supplemental Consolidating Statement of Comprehensive Income (Loss)

Six Months Ended June 30, 2017

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net (loss) income	$ (6.0)	$ 74.3	$ 13.8	$ (88.1)	$ (6.0)
Other comprehensive income:					
Foreign currency translation adjustments	—	—	16.5	—	16.5
Pension and postretirement reclassification adjustment, net of tax	—	7.1	—	—	7.1
Other comprehensive income	—	7.1	16.5	—	23.6
Equity in other comprehensive income (loss) of subsidiaries	23.6	16.5	—	(40.1)	—
Comprehensive income (loss)	$ 17.6	$ 97.9	$ 30.3	$ (128.2)	$ 17.6

Condensed Supplemental Consolidating Statement of Comprehensive Income (Loss)

Six Months Ended June 30, 2016

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ 15.8	$ 99.8	$ 5.3	$ (105.1)	$ 15.8
Other comprehensive income:					
Foreign currency translation adjustments	—	—	28.9	—	28.9
Pension and postretirement reclassification adjustment, net of tax	—	0.5	—	—	0.5
Other comprehensive income	—	0.5	28.9	—	29.4
Equity in other comprehensive income (loss) of	29.4	28.9	—	(58.3)	—

subsidiaries					
Comprehensive income (loss)	$ 45.2	$ 129.2	$ 34.2	$ (163.4)	$ 45.2

31

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed Supplemental Consolidating Statement of Cash Flows

Six Months Ended June 30, 2017

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	$ (0.4)	$ 400.5	$ 8.1	$ (80.8)	$ 327.4
Cash flows from investing activities:					
Additions to property, plant, and equipment	(1.3)	(62.2)	(7.9)	—	(71.4)
Additions to intangible assets	(13.3)	(0.7)	—	—	(14.0)
Intercompany transfer	189.7	(87.3)	(0.1)	(102.3)	—
Proceeds from sale of fixed assets	—	1.7	—	—	1.7
Proceeds from divestiture	—	19.0	0.3	—	19.3
Other	—	—	(0.6)	—	(0.6)
Net cash provided by (used in) investing activities	175.1	(129.5)	(8.3)	(102.3)	(65.0)
Cash flows from financing activities:					
Net borrowing (repayment) of debt	(152.7)	(1.9)	—	—	(154.6)
Intercompany transfer	81.7	(269.1)	4.3	183.1	—
Receipts related to stock-based award activities	9.9	—	—	—	9.9
Payments related to stock-based award activities	(6.6)	—	—	—	(6.6)
Net cash provided by (used in) financing activities	(67.7)	(271.0)	4.3	183.1	(151.3)
Effect of exchange rate changes on cash and cash equivalents	—	—	1.0	—	1.0
Increase in cash and cash equivalents	107.0	—	5.1	—	112.1
Cash and cash equivalents, beginning of period	—	0.2	61.9	—	62.1
Cash and cash equivalents, end of period	$ 107.0	$ 0.2	$ 67.0	$ —	$ 174.2

TREEHOUSE FOODS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed Supplemental Consolidating Statement of Cash Flows

Six Months Ended June 30, 2016

(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	$52.8	$ 300.2	$ (7.8)	$ (104.7)	$ 240.5
Cash flows from investing activities:					
Additions to property, plant, and equipment	(1.1)	(73.9)	(9.0)	—	(84.0)
Additions to intangible assets	(5.9)	—	—	—	(5.9)
Intercompany transfer	98.5	(30.7)	—	(67.8)	—
Acquisitions, less cash acquired	(2,683.5)	0.3	43.0	—	(2,640.2)
Proceeds from sale of fixed assets	—	0.1	—	—	0.1
Other	—	(0.6)	(0.5)	—	(1.1)
Net cash provided by (used in) investing activities	(2,592.0)	(104.8)	33.5	(67.8)	(2,731.1)
Cash flows from financing activities:					
Net borrowing (repayment) of debt	1,702.9	(2.1)	—	—	1,700.8
Payment of deferred financing costs	(34.3)	—	—	—	(34.3)
Intercompany transfer	25.9	(192.7)	(5.7)	172.5	—
Net proceeds from issuance of common stock	835.1	—	—	—	835.1
Receipts related to stock-based award activities	7.0	—	—	—	7.0
Payments related to stock-based award activities	(7.8)	—	—	—	(7.8)
Net cash provided by (used in) financing activities	2,528.8	(194.8)	(5.7)	172.5	2,500.8
Effect of exchange rate changes on cash and cash equivalents	—	—	6.5	—	6.5
(Decrease) increase in cash and cash equivalents	(10.4)	0.6	26.5	—	16.7
Cash and cash equivalents, beginning of period	10.4	0.1	24.4	—	34.9
Cash and cash equivalents, end of period	$—	$ 0.7	$ 50.9	$ —	$ 51.6

24. SUBSEQUENT EVENTS

On August 3, 2017, the Company announced the TreeHouse 2020 restructuring plan, which will be executed in multiple phases over the next several years. The key elements of Phase 1 include the closure of the Company's Brooklyn Park, Minnesota and Plymouth, Indiana facilities as well as the downsizing of the Dothan, Alabama facility. Production at the Brooklyn Park, Minnesota and Plymouth, Indiana facilities is expected to cease in the fourth quarter of 2017. The facility downsizing at Dothan, Alabama is expected to be complete in the third quarter of 2018.

Total costs related to the announced facility actions described above are expected to be approximately $44.5 million, of which approximately $29.7 million is expected to be in cash. Components of the charges include non-cash asset write-offs of approximately $14.8 million, employee-related costs of approximately $7.0 million, and other closure costs of approximately $22.7 million.

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

Business Overview

TreeHouse Foods, Inc. is a manufacturer of packaged foods and beverages with more than 50 manufacturing facilities across the United States, Canada, and Italy that focuses primarily on private label products for both retail grocery and food away from home customers. We manufacture shelf stable, refrigerated, frozen, and fresh products within our five segments (baked goods, beverages, condiments, meals, and snacks). We have a comprehensive offering of packaging formats and flavor profiles, and we also offer natural, organic, and preservative free ingredients in many categories. We believe we are the largest manufacturer of private label snack nuts, trail mixes, refrigerated dough, retail griddle items, in-store bakery cookies, pretzels, soup, pickles, salsa, macaroni and cheese dinners, non-dairy powdered creamer, ready-to-eat cereals, and dry pasta in the United States, the largest manufacturer of private label powdered drink mixes, salad dressings, and instant hot cereals in both the United States and Canada, and the largest manufacturer of private label jams in Canada, based on volume. We also believe we are one of the largest manufacturers of private label crackers, snack bars, table syrup, flavored syrup, barbeque sauce, preserves, and jellies in the United States, based on volume.

The following discussion and analysis presents the factors that had a material effect on our results of operations for the three and six month periods ended June 30, 2017 and 2016. Also discussed is our financial position as of the end of the current period. 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.

In the first quarter of 2017, the Company completed changes in its organizational structure that resulted in a change in how the Company manages its business and allocates resources. Our reportable segments are now organized and managed by products: Baked Goods, Beverages, Condiments, Meals, and Snacks. A discussion of the major product categories that are included in each of our segments is as follows:

Baked Goods – Our Baked Goods segment sells candy; cookies; crackers; in-store bakery products; pita chips; pretzels; refrigerated dough; and retail griddle waffles, pancakes, and French toast.

Beverages – Our Beverages segment sells broths; liquid non-dairy creamer; non-dairy powdered creamers; powdered drinks; single serve hot beverages; specialty teas, and sweeteners.

Condiments – Our Condiments segment sells aseptic cheese and pudding products; jams, preserves, and jellies; mayonnaise; Mexican, barbeque, and other sauces; pickles and related products; refrigerated and shelf stable dressings and sauces; and table and flavored syrups.

Meals – Our Meals segment sells baking and mix powders; powdered soups and gravies; macaroni and cheese; pasta; ready-to-eat and hot cereals; and skillet dinners. Condensed and ready to serve soup and infant feeding products were sold within the Meals segment through the divestiture of the canned soup and infant feeding ("SIF") business on May 22, 2017.

Snacks – Our Snacks segment sells bars; dried fruit; snack nuts; trail mixes; and other wholesome snacks.

The key performance indicators of our segments are net sales dollars and direct operating income. In conjunction with the change in segments, the Company revised its calculation of direct operating income to include direct general and administrative expenses. Direct operating income is now defined as gross profit less freight out, sales commissions, and direct selling, general, and administrative expenses. All prior period information has been recast to reflect this change. 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 (which includes interest expense and expenses associated with restructurings). See Note 22 of the Condensed Consolidated Financial Statements for additional information on the presentation of our reportable segments.

From a macroeconomic perspective, the U.S. economy showed continued variability, with a lower average unemployment rate in the second quarter of 2017 compared to the first quarter of 2017, continuing a trend of improving employment over the last several years. Annualized real gross domestic product rose in the second quarter of 2017 compared to the first quarter of 2017, signaling a return to expected growth following a lower than expected first quarter. Analysts are forecasting gross domestic product growth in the 2 to 3% range for the full year. In June 2017, the Federal Reserve raised interest rates by a quarter percentage point, the third increase in as many quarters. Citing a strong economy and better jobs data, the expectation is that one more similar rate hike will occur during the remainder of 2017. Despite the overall improvement in the U.S. economy, consumer spending continues to remain challenged. Specifically, retail food volumes continue to be weak compared to overall consumer spending. June total retail food sales and volumes, though improved sequentially, were unfavorable compared to the same period of the prior year, showing declines of 1.0%

and 2.5%, respectively. On a quarterly basis, volumes remained challenged year-over-year as second quarter total food volume declined 1.6% compared to the prior year. Branded products continue to be the hardest hit as volumes were down 2.2% in the second quarter of 2017 compared to 2016. Comparatively, private label food volumes were down 0.4% year-over-year for the second quarter. The weak volumes were offset by favorable pricing for both branded and private label products.

While overall volume growth continues to be a challenge, certain retail sectors are experiencing growth as consumers continue to snack, with a focus on “healthy” and “better for you” foods. “Healthy” and “better for you” foods include items such as fresh or freshly prepared foods, natural, organic, or specialty foods, most of which are located in the perimeter of the store. Recent data shows that these product offerings are expected to be the primary growth area for both branded and private label products, and that growth in private label is expected to drive the overall growth in these product categories. These trends are prompting companies to increase or adjust their offerings, while retaining their commitment to provide products at reasonable prices. In an effort to respond to shifting consumer demand, the Company offers an increasing variety of snacks, natural, and organic products.

During the second quarter of 2017, net sales decreased approximately 1.2% when compared to the same period last year, primarily due to the divestiture of the SIF business in the second quarter of 2017, which contributed 1.1% to the overall decline. Unfavorable volume/mix primarily from the exit of low margin co-pack business, unfavorable pricing from competitive pressure, and unfavorable foreign exchange was offset partially by the favorable impact of product recalls. We expect industry volume to remain challenged throughout the remainder of the year.

The overarching themes impacting the second quarter of 2017 include (1) unfavorable volume/mix primarily from competitive pressure and the exit of low margin co-pack business, (2) unfavorable pricing primarily from competitive pressure offset partially by commodity-based pricing increases, (3) generally higher operating and commodity costs, and (4) reduced variable incentive compensation accruals.

As compared to the second quarter of 2016, the average Canadian foreign exchange rate in 2017 was 4.2% weaker. The Company estimates that net sales were negatively impacted by approximately 0.2%. The Company closely monitors the Canadian / U.S. dollar exchange rate and at times, enters into foreign exchange contracts.

Recent Developments

Sale of SIF Business

On April 25, 2017, the Company announced that it had entered into a definitive agreement to sell its SIF business. The SIF business is based in Pittsburgh, Pennsylvania and produces private label condensed and ready-to-serve soup, baby food, and gravies for the Meals segment. The transaction closed on May 22, 2017 and remains subject to working capital adjustments that are expected to be finalized in the third quarter of 2017.

Announcement of TreeHouse 2020

On August 3, 2017, the Company announced the TreeHouse 2020 restructuring plan, which will be executed in multiple phases over the next several years. The key elements of Phase 1 include the closure of the Company’s Brooklyn Park, Minnesota and Plymouth, Indiana facilities as well as the downsizing of the Dothan, Alabama facility. Production at the Brooklyn Park, Minnesota and Plymouth, Indiana facilities is expected to cease in the fourth quarter of 2017. The facility downsizing at Dothan, Alabama is expected to be complete in the third quarter of 2018.

Total costs related to the announced facility actions described above are expected to be approximately $44.5 million, of which approximately $29.7 million is expected to be in cash. Components of the charges include non-cash asset write-offs of approximately $14.8 million, employee-related costs of approximately $7.0 million, and other closure costs of approximately $22.7 million.

Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
	(Dollars in millions)				(Dollars in millions)			
Net sales	$1,522.2	100.0 %	$1,541.4	100.0 %	$3,058.4	100.0 %	$2,811.6	100.0 %
Cost of sales	1,245.3	81.8	1,275.6	82.8	2,495.1	81.6	2,321.2	82.6
Gross profit	276.9	18.2	265.8	17.2	563.3	18.4	490.4	17.4
Operating expenses:								
Selling and distribution	94.8	6.2	104.3	6.8	199.4	6.5	189.8	6.8
General and administrative	83.1	5.4	78.1	5.1	162.2	5.3	172.7	6.1
Amortization expense	28.7	1.9	28.5	1.8	57.3	1.9	52.3	1.9
Other operating expense, net	94.0	6.2	3.3	0.2	100.8	3.3	5.0	0.2
Total operating expenses	300.6	19.7	214.2	13.9	519.7	17.0	419.8	15.0
Operating (loss) income	(23.7)	(1.5)	51.6	3.3	43.6	1.4	70.6	2.4
Other expense (income):								
Interest expense	31.8	2.1	31.5	2.0	61.5	2.0	57.2	2.0
Interest income	(0.3)	—	(0.6)	—	(3.1)			