

TreeHouse Foods, Inc.  
Form 10-Q  
August 04, 2016  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

**(Mark One)**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended June 30, 2016.**

**or**

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

**Commission File Number 001-32504**

**TreeHouse Foods, Inc.**

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

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**20-2311383**

(I.R.S. employer identification no.)

**2021 Spring Road, Suite 600**

**Oak Brook, IL**

(Address of principal executive offices)

**60523**

(Zip Code)

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting Company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

Yes  No

Number of shares of Common Stock, \$0.01 par value, outstanding as of July 31, 2016: 56,717,235

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

(In thousands, except per share data)

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 51,591	\$ 34,919
Investments	9,641	8,388
Receivables, net	362,461	203,198
Inventories, net	989,406	584,115
Assets held for sale	2,674	
Prepaid expenses and other current assets	85,998	16,583
Total current assets	1,501,771	847,203
Property, plant, and equipment, net	1,361,270	541,528
Goodwill	2,788,023	1,649,794
Intangible assets, net	1,195,498	646,655
Other assets, net	52,041	17,616
Total assets	\$ 6,898,603	\$ 3,702,796
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 606,423	\$ 260,580
Current portion of long-term debt	49,929	14,893
Total current liabilities	656,352	275,473
Long-term debt	2,859,502	1,221,741
Deferred income taxes	413,358	279,108
Other long-term liabilities	220,615	71,615
Total liabilities	4,149,827	1,847,937
Commitments and contingencies (Note 19)		
Stockholders equity:		
Preferred stock, par value \$0.01 per share, 10,000 shares authorized, none issued		

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Common stock, par value \$0.01 per share, 90,000 shares authorized, 56,702 and 43,126 shares issued and outstanding, respectively	567	431
Additional paid-in capital	2,059,247	1,207,167
Retained earnings	773,031	760,729
Accumulated other comprehensive loss	(84,069)	(113,468)
Total stockholders' equity	2,748,776	1,854,859
Total liabilities and stockholders' equity	\$ 6,898,603	\$ 3,702,796

See Notes to Condensed Consolidated Financial Statements.

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

(In thousands, except per share data)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Net sales	\$ 1,541,389	\$ 759,208	\$ 2,811,562	\$ 1,542,353
Cost of sales	1,275,583	607,837	2,321,193	1,238,545
Gross profit	265,806	151,371	490,369	303,808
Operating expenses:				
Selling and distribution	104,363	42,797	189,835	88,595
General and administrative	78,067	38,367	172,701	82,767
Amortization expense	28,478	15,551	52,314	30,879
Other operating expense, net	3,305	135	4,999	350
Total operating expenses	214,213	96,850	419,849	202,591
Operating income	51,593	54,521	70,520	101,217
Other expense (income):				
Interest expense	31,538	11,372	57,206	23,064
Interest income	(642)	(194)	(3,461)	(1,963)
(Gain) loss on foreign currency exchange	(749)	(2,386)	(4,873)	9,000
Other (income) expense, net	(729)	(2,058)	4,253	(2,472)
Total other expense	29,418	6,734	53,125	27,629
Income before income taxes	22,175	47,787	17,395	73,588
Income taxes	6,527	16,425	5,093	24,374
Net income	\$ 15,648	\$ 31,362	\$ 12,302	\$ 49,214
Net earnings per common share:				
Basic	\$ 0.28	\$ 0.73	\$ 0.23	\$ 1.15
Diluted	\$ 0.27	\$ 0.72	\$ 0.22	\$ 1.13
Weighted average common shares:				
Basic	56,555	42,974	54,625	42,922
Diluted	57,330	43,679	55,336	43,654

See Notes to Condensed Consolidated Financial Statements.



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

(In thousands)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Net income	\$ 15,648	\$ 31,362	\$ 12,302	\$ 49,214
Other comprehensive income (loss):				
Foreign currency translation adjustments	4,617	6,219	28,883	(20,318)
Pension and postretirement reclassification adjustment (1)	258	256	516	512
Other comprehensive income (loss)	4,875	6,475	29,399	(19,806)
Comprehensive income	\$ 20,523	\$ 37,837	\$ 41,701	\$ 29,408

(1) Net of tax of \$157 and \$158 for the three months ended June 30, 2016 and 2015, respectively, and \$316 for the six months ended June 30, 2016 and 2015.

See Notes to Condensed Consolidated Financial Statements.



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

(In thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,302	\$ 49,214
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	80,512	30,888
Amortization	52,314	30,879
Stock-based compensation	14,324	10,463
Excess tax benefits from stock-based compensation	(3,523)	(4,583)
Mark-to-market loss (gain) on derivative contracts	2,970	(2,404)
Mark-to-market gain on investments	(128)	(154)
Loss on disposition of assets	1,347	179
Deferred income taxes	(3,097)	(2,155)
(Gain) loss on foreign currency exchange	(4,873)	9,000
Other	(770)	(761)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Receivables	13,616	58,199
Inventories	46,984	(24,127)
Prepaid expenses and other assets	(43,802)	1,827
Accounts payable, accrued expenses and other liabilities	68,833	(7,666)
Net cash provided by operating activities	237,009	148,799
<b>Cash flows from investing activities:</b>		
Additions to property, plant, and equipment	(83,956)	(39,125)
Additions to intangible assets	(5,914)	(6,683)
Acquisitions, less cash acquired	(2,640,201)	
Proceeds from sale of fixed assets	91	180
Purchase of investments	(530)	(311)
Increase in restricted cash	(605)	
Other	(11)	
Net cash used in investing activities	(2,731,126)	(45,939)
<b>Cash flows from financing activities:</b>		
Borrowings under Revolving Credit Facility	114,200	40,000
Payments under Revolving Credit Facility	(196,200)	(148,000)
Proceeds from issuance of Term Loan A-2	1,025,000	
Proceeds from issuance of 2024 Notes	775,000	

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Payments on capitalized lease obligations and other debt	(2,140)	(2,017)
Payment of deferred financing costs	(34,328)	
Payments on Term Loans	(15,156)	(4,000)
Net proceeds from issuance of common stock	835,131	
Net (payments) receipts related to stock-based award activities	(762)	1,112
Excess tax benefits from stock-based compensation	3,523	4,583
Net cash provided by (used in) financing activities	2,504,268	(108,322)
Effect of exchange rate changes on cash and cash equivalents	6,521	(1,955)
Net increase (decrease) in cash and cash equivalents	16,672	(7,417)
Cash and cash equivalents, beginning of period	34,919	51,981
Cash and cash equivalents, end of period	\$ 51,591	\$ 44,564

See Notes to Condensed Consolidated Financial Statements.

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**TREEHOUSE FOODS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**As of and for the six months ended June 30, 2016**

**(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 generally accepted accounting principles have been condensed or omitted as permitted by such rules and regulations. The Condensed Consolidated Financial Statements and related notes should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Results of operations for interim periods are not necessarily indicative of annual results.

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 of ConAgra Foods, Inc. ( Private Brands Business ) 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 North American Retail Grocery, Food Away From Home, and Industrial and Export segments, as applicable. The Private Brands Business is on a 4-4-5 fiscal calendar, 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.

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

A detailed description of the Company s significant accounting policies can be found in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

In March 2016, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is currently assessing the impact that this standard will have upon adoption.

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 currently assessing the impact that this standard will have upon adoption.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*, to simplify the accounting for adjustments made to provisional amounts. This ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This ASU is effective for fiscal periods beginning after December 15, 2015. The Company adopted the ASU during the first quarter of 2016. Adjustments to provisional amounts are disclosed in Note 4 on Acquisitions.

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**TREEHOUSE FOODS, INC.**

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

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 for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is currently assessing the impact that this standard will have upon adoption.

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which introduced a new framework to be used when recognizing revenue in an attempt to reduce complexity and increase comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. 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 has not yet determined which of the two adoption methods to elect. 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 upon adoption.

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*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 the facility closures are primarily aggregated in the Other operating expense, net line of the Condensed Consolidated Statements of Income, 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 (In millions)	Total Costs 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	Food Away From Home	\$ 7.7	\$ 3.0
Wareham, Massachusetts	April 5, 2016	First quarter of 2017	Third quarter of 2017	Spoonable dressings	North American Retail Grocery, Food Away From Home	\$ 6.5	\$ 5.0
San Jose, California	May 24, 2016	Second quarter of 2017	Second quarter of 2017	Bars and snack products	North American Retail Grocery	\$ 14.9	\$ 13.0
Wausau, Wisconsin	May 24, 2016	Fourth quarter of 2016	Fourth quarter of 2016	Sugar wafer cookies	North American Retail Grocery	\$ 2.1	\$ 1.0

Total expected costs to close the City of Industry, California facility have been reduced by approximately \$4.2 million since the initial announcement. Total expected costs to close all other facilities remain unchanged since the initial announcements.

Below is a summary of the plant closing costs:

	<b>Three Months Ended June 30, 2016</b>		<b>Six Months Ended June 30, 2016</b>		<b>Cumulative Costs To Date</b>		<b>Total Expected Costs</b>
(In thousands)							
Asset-related	\$ 674	\$	1,506	\$	4,526	\$	7,540
Employee-related	1,292		1,963		3,125		8,547
Other closure costs	981		1,065		1,094		15,130
<b>Total</b>	<b>\$ 2,947</b>	<b>\$</b>	<b>4,534</b>	<b>\$</b>	<b>8,745</b>	<b>\$</b>	<b>31,217</b>

Liabilities recorded as of June 30, 2016 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, 2016:

	<b>Severance</b>		<b>Multiemployer Pension Plan Withdrawal (In thousands)</b>		<b>Total Liabilities</b>
Balance as of December 31, 2015	\$ 395	\$	767	\$	1,162
Expense	1,709				1,709
Payments	(477)				(477)
<b>Balance as of June 30, 2016</b>	<b>\$ 1,627</b>	<b>\$</b>	<b>767</b>	<b>\$</b>	<b>2,394</b>

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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 financial statements from the date of acquisition in the North American Retail Grocery, Food Away From Home, and Industrial and Export segments. Included in the Company's Condensed Consolidated Statements of Income for the six months ended June 30, 2016 are the Private Brands Business's net sales of approximately \$1,286.6 million and net income of \$32.1 million. Integration costs of \$6.5 million were included in determining the net income.

We have made a preliminary allocation to net tangible and intangible assets acquired and liabilities assumed as follows:

	<b>(In thousands)</b>
Cash	\$ 43,358
Receivables	171,008
Inventory	444,860
Property, plant, and equipment	804,234
Customer relationships	510,900
Trade names	33,000
Software	19,576
Formulas	23,200
Other assets	52,418
Goodwill	1,129,507
Assets acquired	3,232,061
Deferred taxes	(136,622)
Assumed current liabilities	(252,172)
Assumed long-term liabilities	(155,545)



Total purchase price	\$	2,687,722
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The Company allocated \$496.1 million to customer relationships in the North American Retail Grocery segment, which have a preliminary estimated life of 13 years, and \$14.8 million to customer relationships in the Food Away From Home segment, which have a preliminary estimated life of 10 years. The Company allocated \$33.0 million to trade names, which have a preliminary estimated life of 10 years. The Company allocated \$23.2 million to formulas, which have a preliminary 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 on a straight line basis. 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 preliminarily allocated \$1,055.6 million and \$73.9 million of goodwill to the North American Retail Grocery and Food Away From Home 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. These costs are included in the General and administrative expense line of the Condensed Consolidated Statements of Income. The purchase price allocation in the table above is preliminary and subject to the finalization of the Company's valuation analysis, including adjustments to taxes.

The Company recorded purchase price adjustments related to taxes and working capital in the second quarter of 2016, resulting in an increase to goodwill of approximately \$5.6 million. Subsequent to quarter end, the working capital adjustment was finalized on July 25, 2016, resulting in a payment of \$4.2 million to ConAgra Foods, Inc. that is reflected as a purchase price adjustment. As a result of

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these adjustments, approximately \$0.2 million was expensed to Cost of sales in the second quarter of 2016. The remaining adjustments did not impact the Condensed Consolidated Statements of Income.

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, 2015. 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 2015 pro forma results include \$1.3 billion in asset impairment charges incurred by the seller. 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.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>		<b>2016</b>	
	<b>(In thousands, except per share data)</b>			
	\$	1,678,636	\$	3,135,525
Pro forma net sales	\$	1,678,636	\$	3,135,525
Pro forma net income (loss)	\$	26,562	\$	34,017
Pro forma basic earnings (loss) per common share	\$	0.47	\$	0.60
Pro forma diluted earnings (loss) per common share	\$	0.47	\$	0.59

**5. INVESTMENTS**

	<b>June 30, 2016</b>		<b>December 31, 2015</b>	
	<b>(In thousands)</b>			
	\$	6,988	\$	5,283
U.S. equity	\$	6,988	\$	5,283
Non-U.S. equity		1,622		1,574
Fixed income		1,031		1,531
Total investments	\$	9,641	\$	8,388

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

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

We consider temporary cash investments with an original maturity of three months or less to be cash equivalents. As of June 30, 2016 and December 31, 2015, \$50.9 million and \$24.4 million, respectively, represents cash and equivalents held in foreign jurisdictions, in local currencies, that are convertible into other currencies. The cash and equivalents held in foreign jurisdictions are expected to be used for general corporate purposes in foreign jurisdictions, including capital projects and acquisitions. The Prepaid expenses and other current assets line on the Condensed Consolidated Balance Sheets also includes restricted cash of \$2.9 million as of June 30, 2016, which relates to cash held to meet certain insurance requirements.

For the three and six months ended June 30, 2016, we recognized unrealized losses totaling \$0.1 million and \$0.4 million, respectively, that are included in the Interest expense line of the Condensed Consolidated Statements of Income and \$0.2 million and \$0.5 million, respectively, in unrealized gains that are included in the Interest income line of the Condensed Consolidated Statements of Income. Additionally, realized gains for the three months ended June 30, 2016 were insignificant, while for the six months ended June 30, 2016 we recognized realized gains totaling \$0.1 million that are included in the Interest income line of the Condensed Consolidated Statements of Income. When securities are sold, their cost is determined based on the first-in, first-out method.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. INVENTORIES**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>(In thousands)</b>	
Raw materials and supplies	\$ 420,711	\$ 274,007
Finished goods	588,972	331,535
LIFO reserve	(20,277)	(21,427)
Total inventories	\$ 989,406	\$ 584,115

Inventory is generally accounted for under the first-in, first-out ( FIFO ) method, but a portion is accounted for under the last-in, first-out ( LIFO ) method or the weighted average costing approach. Approximately \$98.5 million and \$88.1 million of our inventory was accounted for under the LIFO method of accounting at June 30, 2016 and December 31, 2015, respectively. Approximately \$131.7 million and \$128.9 million of our inventory was accounted for using the weighted average costing approach at June 30, 2016 and December 31, 2015, respectively.

**7. PROPERTY, PLANT, AND EQUIPMENT**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>(In thousands)</b>	
Land	\$ 70,326	\$ 25,954
Buildings and improvements	455,062	226,134
Machinery and equipment	1,225,112	681,711
Construction in progress	108,486	24,493
Total	1,858,986	958,292
Less accumulated depreciation	(497,716)	(416,764)
Property, plant, and equipment, net	\$ 1,361,270	\$ 541,528

Depreciation expense was \$44.9 million and \$15.5 million for the three months ended June 30, 2016 and 2015, respectively, and \$80.5 million and \$30.9 million for the six months ended June 30, 2016 and 2015, respectively.



Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. GOODWILL AND INTANGIBLE ASSETS**

Changes in the carrying amount of goodwill for the six months ended June 30, 2016 are as follows:

	<b>North American Retail Grocery</b>	<b>Food Away From Home</b>	<b>Industrial and Export</b>	<b>Total</b>
	<b>(In thousands)</b>			
Balance at December 31, 2015	\$ 1,423,441	\$ 92,267	\$ 134,086	\$ 1,649,794
Acquisitions	1,050,383	73,541		1,123,924
Purchase price adjustments	5,218	365		5,583
Foreign currency exchange adjustments	7,947	775		8,722
Balance at June 30, 2016	\$ 2,486,989	\$ 166,948	\$ 134,086	\$ 2,788,023

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

The carrying amounts of our intangible assets with indefinite lives, other than goodwill, as of June 30, 2016 and December 31, 2015 are as follows:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>(In thousands)</b>	
Trademarks	\$ 26,584	\$ 25,229
Total indefinite lived intangibles	\$ 26,584	\$ 25,229

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, 2016 and December 31, 2015 are as follows:

**June 30, 2016**

**December 31, 2015**

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	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization (In thousands)</b>	<b>Net Carrying Amount</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization (In thousands)</b>	<b>Net Carrying Amount</b>
<b>Intangible assets with finite lives:</b>						
Customer-related	\$ 1,289,210	\$ (251,734)	\$ 1,037,476	\$ 769,419	\$ (208,962)	\$ 560,457
Contractual agreements	2,974	(2,874)	100	2,964	(2,831)	133
Trademarks	65,362	(13,544)	51,818	32,240	(11,091)	21,149
Formulas/recipes	33,777	(10,201)	23,576	10,471	(7,824)	2,647
Computer software	104,671	(48,727)	55,944	78,039	(40,999)	37,040
<b>Total finite lived intangibles</b>	<b>\$ 1,495,994</b>	<b>\$ (327,080)</b>	<b>\$ 1,168,914</b>	<b>\$ 893,133</b>	<b>\$ (271,707)</b>	<b>\$ 621,426</b>

Total intangible assets, excluding goodwill, as of June 30, 2016 and December 31, 2015 were \$1,195.5 million and \$646.7 million, respectively. Amortization expense on intangible assets for the three months ended June 30, 2016 and 2015 was \$28.5 million and \$15.6 million, respectively, and \$52.3 million and \$30.9 million for the six months ended June 30, 2016 and 2015, respectively. Estimated amortization expense on intangible assets for 2016 and the next four years is as follows:

	<b>(In thousands)</b>
2016	\$ 109,818
2017	\$ 111,535
2018	\$ 104,388
2019	\$ 102,961
2020	\$ 101,285

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>(In thousands)</b>	
Accounts payable	\$ 439,672	\$ 202,065
Payroll and benefits	68,389	27,467
Interest	26,016	6,241
Taxes	21,450	1,499
Health insurance, workers compensation, and other insurance costs	18,248	9,331
Marketing expenses	18,794	7,435
Other accrued liabilities	13,854	6,542
Total	\$ 606,423	\$ 260,580

**10. INCOME TAXES**

Income taxes were recorded at an effective rate of 29.4% and 29.3% for the three and six months ended June 30, 2016, respectively, compared to 34.4% and 33.1% for the three and six months ended June 30, 2015, respectively. During the quarter, the Company's effective tax rate was favorably impacted by the reversal of a \$0.9 million tax reserve assumed in a prior acquisition. The Company also recognized \$0.9 million of non-operating expense for the write-off of the related indemnification asset, which is included in the Other (income) expense, net line of the Condensed Consolidated Statements of Income.

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 and 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.

The Internal Revenue Service (IRS) completed the examination of Flagstone Foods, Inc.'s 2013 tax year during the quarter, with no proposed adjustments to the Company's tax liability. The Canadian Revenue Agency (CRA) is currently examining the 2008 through 2013 tax years of E.D. Smith. The CRA examination is expected to be completed in 2016 or 2017. The Company has examinations in process with various state taxing authorities, which are expected to be complete in 2016.



Management estimates that it is reasonably possible that the total amount of unrecognized tax benefits could decrease by as much as \$17.6 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. Less than \$0.1 million of the \$17.6 million would affect net income when settled.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. LONG-TERM DEBT**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>(In thousands)</b>	
Revolving Credit Facility	\$ 271,000	\$ 353,000
Term Loan A	291,750	295,500
Term Loan A-1	185,000	190,000
Term Loan A-2	1,018,594	
2022 Notes	400,000	400,000
2024 Notes	775,000	
Tax increment financing and other debt	4,786	6,002
Total outstanding debt	2,946,130	1,244,502
Deferred financing costs	(36,699)	(7,868)
Less current portion	(49,929)	(14,893)
Total long-term debt	\$ 2,859,502	\$ 1,221,741

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 amended the Company's prior credit agreement, dated as of May 6, 2014 (as amended from time to time prior to February 1, 2016, the "Prior 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 contemporaneous 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 Amended and Restated Credit Agreement contains substantially the same covenants as the Prior Credit Agreement with adjustments to reflect the incurrence of Term Loan A-2.

In connection with the Amended and Restated Credit Agreement, \$20.3 million in fees will be amortized ratably through February 1, 2021. Fees associated with Term Loan A, Term Loan A-1, and Term Loan A-2 (the "Term Loans") are presented as a direct deduction from outstanding debt, while fees associated with the Revolving Credit Facility are presented as an asset. Beginning February 1, 2016, unamortized fees associated with the Prior Credit Agreement will be amortized ratably through February 1, 2021.

The Revolving Credit Facility and the Term Loans 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, 2016 was 2.50%.

*Revolving Credit Facility* As of June 30, 2016, \$575.4 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, as compared to a maturity date of May 6, 2019 under the Prior Credit Agreement. In addition, as of June 30, 2016, there were \$53.6 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.

Interest is payable quarterly or at the end of the applicable interest period in arrears on any outstanding borrowings. The interest rates under the Amended and Restated Credit Agreement are based on the Company's consolidated leverage ratio, and are determined by either (i) LIBOR, plus a margin ranging from 1.25% to 3.00% (inclusive of the facility fee), based on the Company's consolidated leverage ratio, or (ii) a Base Rate (as defined in the Amended and Restated Credit Agreement), plus a margin ranging from 0.25% to 2.00% (inclusive of the facility fee), based on the Company's consolidated leverage ratio.

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

The Amended and Restated Credit Agreement is fully and unconditionally, as well as jointly and severally, guaranteed by our 100% owned direct and indirect subsidiaries described as follows: During the first quarter of 2016, Protenergy Holdings, Inc. and Protenergy Natural Foods, Inc. were added as guarantors. Additionally, in connection with the acquisition of the Private Brands Business, TreeHouse Private Brands, Inc. (formerly Ralcorp Holdings, Inc.); American Italian Pasta Co.; Nutcracker Brands; Linette Quality Chocolates; Ralcorp Frozen Bakery Products, Inc.; Cottage Bakery, Inc.; and The Carriage House Companies, Inc. were added as guarantors during the first quarter of 2016. As a result, Bay Valley Foods, LLC; Sturm Foods, Inc.; S.T. Specialty Foods, Inc.; Associated Brands, Inc.; Cains Foods, Inc.; Cains Foods L.P.; Cains GP, LLC; and Flagstone Foods, Inc., together with the subsidiaries added in the first quarter as noted above, and certain other subsidiaries that may become guarantors in the future are collectively known as the Guarantor Subsidiaries. The Amended and Restated Credit Agreement contains various financial and restrictive covenants and requires that the Company maintain certain financial ratios, including a leverage and interest coverage ratio. The Amended and Restated Credit Agreement also contains cross-default provisions which could result in the acceleration of payments in the event TreeHouse or the Guarantor Subsidiaries (i) fails to make a payment when due in respect of any indebtedness or guarantee having an aggregate principal amount greater than \$75 million or (ii) fails to observe or perform any other agreement or condition related to such indebtedness or guarantee as a result of which the holder(s) of such debt are permitted to accelerate the payment of such debt. The Amended and Restated Credit Agreement is secured by substantially all personal property of TreeHouse and its Guarantor Subsidiaries.

*Term Loan A* On May 6, 2014, the Company entered into a \$300 million term loan whose maturity date was amended in connection with the Amended and Restated Credit Agreement. The new maturity date is February 1, 2021, as compared to May 6, 2021 under the Prior Credit Agreement. The interest rates applicable to Term Loan A are based on the Company's consolidated leverage ratio, and are determined by either (i) LIBOR, plus a margin ranging from 1.25% to 3.00%, or (ii) a Base Rate (as defined in the Amended and Restated Credit Agreement), plus a margin ranging from 0.25% to 2.00%. Payments are due on a quarterly basis. Term Loan A is subject to substantially the same covenants as the Revolving Credit Facility, and also has the same Guarantor Subsidiaries. As of June 30, 2016, \$291.8 million was outstanding under Term Loan A.

*Term Loan A-1* On July 29, 2014, the Company entered into a \$200 million term loan whose maturity date was amended in connection with the Amended and Restated Credit Agreement. The new maturity date is February 1, 2021, as compared to May 6, 2019 under the Prior Credit Agreement. The interest rates applicable to Term Loan A-1 are based on the Company's consolidated leverage ratio, and are determined by either (i) LIBOR, plus a margin ranging from 1.25% to 3.00%, or (ii) a Base Rate (as defined in the Amended and Restated Credit Agreement), plus a margin ranging from 0.25% to 2.00%. Payments are due on a quarterly basis. Term Loan A-1 is subject to substantially the same covenants as the Revolving Credit Facility, and has the same Guarantor Subsidiaries. As of June 30, 2016, \$185.0 million was outstanding under Term Loan A-1.

*Term Loan A-2* On February 1, 2016, the Company entered into a \$1,025 million term loan pursuant to the Amended and Restated Credit Agreement. Term Loan A-2 matures on February 1, 2021. The interest rates applicable to Term Loan A-2 are based on the Company's consolidated leverage ratio, and are determined by either (i) LIBOR, plus a margin ranging from 1.25% to 3.00%, or (ii) a Base Rate (as defined in the Amended and Restated Credit Agreement), plus a margin ranging from 0.25% to 2.00%. Payments are due on a quarterly basis starting June 30, 2016. Term Loan

A-2 is subject to substantially the same covenants as the Revolving Credit Facility, and has the same Guarantor Subsidiaries. As of June 30, 2016, \$1,018.6 million was outstanding under Term Loan A-2.

*2022 Notes* On March 11, 2014, the Company completed its underwritten public offering of \$400 million in aggregate principal amount of 4.875% notes due March 15, 2022 (the *2022 Notes* ). The net proceeds of \$394 million (\$400 million less underwriting discount of \$6 million, providing an effective interest rate of 4.99%) were used to extinguish the Company's previously issued 7.75% notes due on March 1, 2018 (the *2018 Notes* ). Interest is payable on March 15 and September 15 of each year. The *2022 Notes* will mature on March 15, 2022.

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

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

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

*2024 Notes* On January 29, 2016, the Company completed an exempt offering under Rule 144A and Regulation S of the Securities Act of \$775 million in aggregate principal amount of 6.0% notes due February 15, 2024. The net proceeds from the issuance of the 2024 Notes (approximately \$760.7 million after deducting issuance costs, providing an effective interest rate of 6.23%) were used to fund a portion of the purchase price of the Private Brands Business. Interest is payable on February 15 and August 15 of each year, beginning August 15, 2016. The 2024 Notes will mature on February 15, 2024.

The Company may redeem some or all of the 2024 Notes at any time on or after February 15, 2019 at the applicable redemption prices described in the Indenture plus accrued and unpaid interest, if any, up to but not including the redemption date. In addition, prior to February 15, 2019, the Company may redeem all or a portion of the 2024 Notes at a price equal to 100% of the principal amount plus the make-whole premium set forth in the Indenture plus accrued and unpaid interest, if any, up to but not including the redemption date. The Company may also redeem up to 40% of the 2024 Notes prior to February 15, 2019 with the net cash proceeds received from certain equity offerings at the redemption price set forth in the Indenture. In the event of certain change of control events, as described in the Indenture, the Company may be required to purchase the 2024 Notes from the holders at a purchase price of 101% of the principal amount plus any accrued and unpaid interest.

The Company issued the 2022 Notes and 2024 Notes pursuant to a single base Indenture among the Company, the Guarantor Subsidiaries, and the Trustee. The Indenture provides, among other things, that the 2022 Notes and 2024 Notes will be senior unsecured obligations of the Company. The Company's payment obligations under the 2022 Notes and 2024 Notes are fully and unconditionally, as well as jointly and severally, guaranteed on a senior unsecured basis by the Guarantor Subsidiaries, in addition to any future domestic subsidiaries that guarantee or become borrowers under its credit agreement, or guarantee certain other indebtedness incurred by the Company or its restricted subsidiaries. The Indenture was supplemented during the first quarter of 2016 to include the changes in Guarantor Subsidiaries noted above.

The Indenture governing the 2022 Notes and 2024 Notes contains customary event of default provisions (including, without limitation, defaults relating to the failure to pay at final maturity or the acceleration of certain other indebtedness). If an event of default occurs and is continuing, the trustee under the Indenture or holders of at least 25% in principal amount of such notes may declare the principal amount and accrued and unpaid interest, if any, on all such notes to be due and payable. The Indenture also contains restrictive covenants that, among other things, limit the ability of the Company and the Guarantor Subsidiaries to: (i) pay dividends or make other restricted payments, (ii) make certain investments, (iii) incur additional indebtedness or issue preferred stock, (iv) create liens, (v) pay dividends or make other payments (except for certain dividends and payments to the Company and certain subsidiaries of the Company), (vi) merge or consolidate with other entities or sell substantially all of its assets, (vii) enter into transactions with affiliates, and (viii) engage in certain sale and leaseback transactions. The foregoing limitations are subject to exceptions as set forth in the Indenture. In addition, if in the future, the 2022 Notes or 2024 Notes have an investment grade credit rating by both Moody's Investors Services, Inc. and Standard & Poor's Ratings Services, certain of these covenants will, thereafter, no longer apply to the 2022 Notes or 2024 Notes for so long as the 2022 Notes or 2024 Notes are rated investment grade by the two rating agencies.

*Tax Increment Financing* On December 15, 2001, the Urban Redevelopment Authority of Pittsburgh ( URA ) issued \$4.0 million of redevelopment bonds, pursuant to a Tax Increment Financing Plan to assist with certain aspects of the development and construction of the Company's Pittsburgh, Pennsylvania facilities. The agreement was transferred to the Company as part of the acquisition of the soup and infant feeding business. The Company has agreed to make certain payments with respect to the principal amount of the URA's redevelopment bonds through May 2019. As of June 30, 2016, \$1.0 million remains outstanding that matures May 1, 2019. Interest accrues at an annual rate of 7.16%.

*Interest Rate Swap Agreements* 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. The borrowing cost on the swapped principal will range from 2.11% to 3.86% during the life of the swap agreement based on the credit spreads under the Amended and Restated Credit Agreement.

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

On January 26, 2016, a total of 13,269,230 shares were issued pursuant to a public offering at \$65.00 per share, resulting in gross proceeds to the Company of \$862.5 million. Net cash from the offering, after considering issuance costs, was approximately \$835.1 million, with approximately \$0.1 million recorded to Common stock at par value and approximately \$835.0 million recorded to Additional paid-in capital. The net proceeds from the offering were used to fund a portion of the purchase price of the Private Brands Business.

As of June 30, 2016, there were 56,702,327 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:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Net income	\$ 15,648	\$ 31,362	\$ 12,302	\$ 49,214
Weighted average common shares outstanding	56,555	42,974	54,625	42,922
Assumed exercise/vesting of equity awards (1)	775	705	711	732
Weighted average diluted common shares outstanding	57,330	43,679	55,336	43,654



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Net earnings per basic share	\$	0.28	\$	0.73	\$	0.23	\$	1.15
Net earnings per diluted share	\$	0.27	\$	0.72	\$	0.22	\$	1.13

- (1) Incremental shares from equity awards are computed using the treasury stock method. Equity awards, excluded from our computation of diluted earnings per share because they were anti-dilutive, were 0.7 million and 1.0 million for the three and six months ended June 30, 2016, respectively, and 0.8 million and 0.7 million for the three and six months ended June 30, 2015, respectively.

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**TREEHOUSE FOODS, INC.**

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

**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). The Plan is administered by our Compensation Committee, which consists entirely of independent directors. The Compensation Committee determines specific awards for our executive officers. For all other employees, if the committee designates, our Chief Executive Officer or such other officers will, from time to time, determine specific persons to whom awards under the Plan will be granted, and the terms and conditions of each award. The Compensation Committee or its designee, pursuant to the terms of the Plan, also will make all other necessary decisions and interpretations under the plan.

Under the Plan, the Compensation Committee may grant awards of various types of compensation, including stock options, restricted stock, restricted stock units, performance shares, performance units, other types of stock-based awards, and other cash-based compensation. The maximum number of shares available to be awarded under the Plan is approximately 12.3 million, of which approximately 2.0 million remain available as of June 30, 2016.

Income before income taxes for the three and six month periods ended June 30, 2016 includes share-based compensation expense of \$8.1 million and \$14.3 million, respectively. Share-based compensation expense for the three and six months ended June 30, 2015 was \$4.5 million and \$10.5 million, respectively. The tax benefit recognized related to the compensation cost of these share-based awards was approximately \$3.0 million and \$5.2 million for the three and six months ended June 30, 2016, respectively, and \$1.6 million and \$3.7 million for the three and six months ended June 30, 2015, respectively.

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

*Stock Options* The following table summarizes stock option activity during the six months ended June 30, 2016. Stock options generally have a three year vesting schedule, which vest one-third on each of the first three anniversaries of the grant date, and expire ten years from the grant date.

	Employee	Director	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value (In thousands)
	Options (In thousands)	Options			
Outstanding, at December 31, 2015	1,918	20	\$ 57.18	6.2	\$ 41,793
Granted	448		\$ 96.88		
Forfeited	(41)		\$ 70.75		
Exercised	(140)		\$ 49.94		
Outstanding, at June 30, 2016	2,185	20	\$ 65.45	6.6	\$ 82,015
Vested/expected to vest, at June 30, 2016	2,110	20	\$ 64.57	6.5	\$ 81,125
Exercisable, at June 30, 2016	1,371	20	\$ 52.16	5.0	\$ 70,223

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)		(In millions)	
Compensation expense	\$ 1.9	\$ 1.8	\$ 3.5	\$ 3.3
Intrinsic value of stock options exercised	\$ 4.7	\$ 2.4	\$ 6.0	\$ 13.4
Tax benefit recognized from stock option exercises	\$ 1.7	\$ 0.9	\$ 2.1	\$ 5.1

Compensation costs related to unvested options totaled \$17.5 million at June 30, 2016 and will be recognized over the remaining vesting period of the grants, which averages 2.4 years. The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used to calculate the fair value of stock options issued in 2016 include the following: weighted average expected volatility of 25.12%, expected term of six years, weighted average risk free rate of 1.16%, and no dividends. The weighted average grant date fair value of awards granted in 2016 was \$26.02.

*Restricted Stock Units* Employee restricted stock unit awards generally vest based on the passage of time. These awards generally vest one-third on each anniversary of the grant date. Director restricted stock units generally vest on the first anniversary of the grant date. Certain directors have deferred receipt of their awards until either their departure from the Board of Directors or a specified date. As of June 30, 2016, 91 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, 2016:

	<b>Employee Restricted Stock Units (In thousands)</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Director Restricted Stock Units (In thousands)</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding, at December 31, 2015	312	\$ 76.36	111	\$ 52.60
Granted	380	\$ 91.28	13	\$ 98.28
Vested	(117)	\$ 74.34	(20)	\$ 58.91
Forfeited	(12)	\$ 77.10		\$
Outstanding, at June 30, 2016	563	\$ 86.82	104	\$ 56.95

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In millions)</b>		<b>(In millions)</b>	
Compensation expense	\$ 4.5	\$ 3.4	\$ 8.0	\$ 6.0
Fair value of vested restricted stock units	\$ 12.9	\$ 12.3	\$ 13.1	\$ 12.9
Tax benefit recognized from vested restricted stock units	\$ 4.6	\$ 4.4	\$ 4.7	\$ 4.5

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

Future compensation costs related to restricted stock units are approximately \$40.3 million as of June 30, 2016 and will be recognized on a weighted average basis 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 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, 2016, based on achievement of operating performance measures, 84,897 performance units were converted into 110,468 shares of stock, an average conversion ratio of 1.30 shares for each performance unit. The following table summarizes the performance unit activity during the six months ended June 30, 2016:

	<b>Performance Units (In thousands)</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested, at December 31, 2015	271	\$ 74.13
Granted	100	\$ 98.28
Vested	(85)	\$ 66.01
Forfeited	(6)	\$ 74.80
Unvested, at June 30, 2016	280	\$ 85.11

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In millions)</b>		<b>(In millions)</b>	
Compensation expense	\$ 1.7	\$ (0.7)	\$ 2.8	\$ 1.2
Fair value of vested performance units	\$ 11.4	\$ 4.5	\$ 11.4	\$ 4.5
Tax benefit recognized from performance units vested	\$ 4.1	\$ 1.7	\$ 4.1	\$ 1.7

Future compensation costs related to the performance units are estimated to be approximately \$15.5 million as of June 30, 2016, and are expected to be recognized over the next 2.5 years. The grant date fair value of the awards is equal to the Company's closing stock price on the date of grant.

Table of Contents**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:

	<b>Foreign Currency Translation (1)</b>	<b>Unrecognized Pension and Postretirement Benefits (2)</b>	<b>Accumulated Other Comprehensive Loss</b>
	<b>(In thousands)</b>		
Balance at December 31, 2015	\$ (100,512)	\$ (12,956)	\$ (113,468)
Other comprehensive income	28,883		28,883
Reclassifications from accumulated other comprehensive loss		516	516
Other comprehensive income	28,883	516	29,399
Balance at June 30, 2016	\$ (71,629)	\$ (12,440)	\$ (84,069)

	<b>Foreign Currency Translation (1)</b>	<b>Unrecognized Pension and Postretirement Benefits (2)</b>	<b>Accumulated Other Comprehensive Loss</b>
	<b>(In thousands)</b>		
Balance at December 31, 2014	\$ (51,326)	\$ (13,005)	\$ (64,331)
Other comprehensive loss	(20,318)		(20,318)
Reclassifications from accumulated other comprehensive loss		512	512
Other comprehensive (loss) income	(20,318)	512	(19,806)
Balance at June 30, 2015	\$ (71,644)	\$ (12,493)	\$ (84,137)

- (1) The foreign currency translation adjustment is not net of tax, as it pertains to the Company's permanent investments in its Canadian and Italian subsidiaries.
- (2) The unrecognized pension and postretirement benefits reclassification is presented net of tax of \$316 thousand for the six months ended June 30, 2016 and 2015. The reclassification is included in the computation of net periodic pension and postretirement cost, which is recorded in the Cost of sales and General and administrative lines of the Condensed Consolidated Statements of Income.

The Condensed Consolidated Statements of Income lines impacted by reclassifications out of Accumulated other comprehensive loss are outlined below:

	Reclassifications from Accumulated Other Comprehensive Loss				Affected line in
	the Condensed Consolidated				Statements of Income
	Three months ended June 30,		Three months ended June 30,		
	2016	2015	2016	2015	
	(In thousands)		(In thousands)		
Amortization of defined benefit pension items:					
Prior service costs	\$ 35	\$ 36	\$ 70	\$ 73	(a)
Unrecognized net loss	380	378	762	755	(a)
Total before tax	415	414	832	828	
Income taxes	157	158	316	316	Income taxes
Net of tax	\$ 258	\$ 256	\$ 516	\$ 512	

- (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 Income.



Table of Contents**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 acquisition of the Private Brands Business, the Company acquired three pension plans and one postretirement benefit plan. The net unfunded liability associated with these plans, which is included in the Accounts payable and accrued expenses and Other long-term liabilities lines of the Condensed Consolidated Balance Sheets, was \$76.1 million as of the acquisition date.

Components of net periodic pension expense are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Service cost	\$ 1,279	\$ 621	\$ 2,328	\$ 1,243
Interest cost	4,091	713	7,071	1,425
Expected return on plan assets	(4,468)	(765)	(7,694)	(1,530)
Amortization of unrecognized prior service cost	52	52	105	105
Amortization of unrecognized net loss	382	365	765	730
Net periodic pension cost	\$ 1,336	\$ 986	\$ 2,575	\$ 1,973

The Company contributed \$2.4 million to the pension plans in the first six months of 2016. The Company does not expect to make additional contributions to the plans in 2016.

Components of net periodic postretirement expense are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Service cost	\$ 22	\$ 5	\$ 38	\$ 10
Interest cost	347	37	590	75

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Amortization of unrecognized prior service cost	(17)	(16)	(35)	(32)
Amortization of unrecognized net loss	(2)	13	(3)	25
Net periodic postretirement cost	\$ 350	\$ 39	\$ 590	\$ 78

The Company expects to contribute approximately \$0.2 million to the postretirement health plans during 2016.

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

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****17. OTHER OPERATING EXPENSE, NET**

The Company incurred other operating expense for the three and six months ended June 30, 2016 and 2015, which consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)		(In thousands)	
Restructuring	\$ 2,447	\$ 135	\$ 4,083	\$ 350
Other	858		916	
Total other operating expense, net	\$ 3,305	\$ 135	\$ 4,999	\$ 350

**18. SUPPLEMENTAL CASH FLOW INFORMATION**

	Six Months Ended June 30,	
	2016	2015
	(In thousands)	
Interest paid	\$ 33,343	\$ 21,332
Income taxes paid	\$ 46,426	\$ 20,211
Accrued purchase of property and equipment	\$ 11,492	\$ 8,008
Accrued other intangible assets	\$ 3,027	\$ 2,550

Non-cash financing activities for the six months ended June 30, 2016 and 2015 include \$24.0 million and \$17.4 million, respectively, related to the vesting of restricted stock, restricted stock units, and performance stock units. Income taxes paid in the first six months of 2016 were higher than the first six months of 2015 due to the timing of payments to the U.S. federal and state taxing authorities, the inclusion of the Private Brands Business, and payments made to the CRA relating to the 2008, 2009, and 2010 filing periods.

**19. COMMITMENTS AND CONTINGENCIES**

*Litigation, Investigations and Audits* The Company is party in the ordinary course of business to certain claims, litigation, audits, and investigations. The Company believes it has established adequate accruals for liabilities that are probable and reasonably estimable that may be incurred in connection with any such currently pending or threatened matter, none of which are significant. In the Company's opinion, the settlement of any such currently pending or

threatened matter is not expected to have a material impact on its financial position, annual results of operations, or cash flows.

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**TREEHOUSE FOODS, INC.**

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

**20. DERIVATIVE INSTRUMENTS**

The Company is exposed to certain risk 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 Income, 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 Income, with their fair value recorded on the Condensed Consolidated Balance Sheets. As of June 30, 2016, the Company had \$57.3 million of U.S. dollar foreign currency contracts outstanding, expiring throughout 2016.

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 Income.

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

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, 2016, the Company had outstanding contracts for the purchase of 29,940 megawatts of electricity, expiring throughout 2016; 1.4 million gallons of diesel, expiring throughout 2016; 1.1 million dekatherms of natural gas, expiring throughout 2016; 0.9 million bushels of corn, expiring throughout 2016 and early 2017; 12.6 million pounds of plastics, expiring throughout 2016; 0.6 million bushels of cucumbers, expiring throughout 2016; and 1.7 million bushels of flour, expiring throughout 2016.

Table of Contents**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, 2016	December 31, 2015
(In thousands)			
<b>Asset Derivatives</b>			
Foreign currency contracts	Prepaid expenses and other current assets	\$ 606	\$ 1,356
		\$ 606	\$ 1,356
<b>Liability Derivatives</b>			
Commodity contracts	Accounts payable and accrued expenses	\$ 2,835	\$ 3,778
Foreign currency contracts	Accounts payable and accrued expenses	1,569	
Interest rate swap agreements	Accounts payable and accrued expenses	1,594	
		\$ 5,998	\$ 3,778

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

Location of (Loss) Gain Recognized in Income	Three Months Ended June 30,		Six Months Ended June 30,		
	2016	2015	2016	2015	
(In thousands)					
<b>Mark-to-market unrealized gain (loss):</b>					
Commodity contracts	Other (income) expense, net	\$ 521	\$ 1,098	\$ 943	\$ 1,041
Foreign currency contracts	Other (income) expense, net	2,806	889	(2,319)	1,363
Interest rate swap agreements	Other (income) expense, net	(1,594)		(1,594)	
		1,733	1,987	(2,970)	2,404

Total unrealized gain (loss)					
<b>Realized (loss) gain</b>					
Commodity contracts	Manufacturing related to cost of sales and transportation related to selling and distribution	(29)	(929)	(1,015)	(1,759)
Foreign currency contracts	Cost of sales	(2,735)	461	(1,935)	461
Total realized loss		(2,764)	(468)	(2,950)	(1,298)
Total (loss) gain		\$ (1,031)	\$ 1,519	\$ (5,920)	\$ 1,106



Table of Contents**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, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015		Level
	Carrying Value	Fair Value	Carrying Value	Fair Value	
	(In thousands)		(In thousands)		
Not recorded at fair value (liability):					
Revolving Credit Facility	\$ (271,000)	\$ (266,349)	\$ (353,000)	\$ (352,932)	2
Term Loan A	\$ (291,750)	\$ (291,956)	\$ (295,500)	\$ (294,327)	2
Term Loan A-1	\$ (185,000)	\$ (185,257)	\$ (190,000)	\$ (190,200)	2
Term Loan A-2	\$ (1,018,594)	\$ (1,020,010)	\$	\$	2
2022 Notes	\$ (400,000)	\$ (409,500)	\$ (400,000)	\$ (383,000)	2
2024 Notes	\$ (775,000)	\$ (819,563)	\$	\$	2
Recorded on a recurring basis at fair value					
(liability) asset:					
Commodity contracts	\$ (2,835)	\$ (2,835)	\$ (3,778)	\$ (3,778)	2
Foreign currency contracts	\$ (963)	\$ (963)	\$ 1,356	\$ 1,356	2
Interest rate swap agreements	\$ (1,594)	\$ (1,594)	\$	\$	2
Investments	\$ 9,641	\$ 9,641	\$ 8,388	\$ 8,388	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.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22. SEGMENT AND GEOGRAPHIC INFORMATION AND MAJOR CUSTOMERS**

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

The Company evaluates the performance of its segments based on net sales dollars and direct operating income (gross profit less freight out, sales commissions, and direct selling and marketing expenses). The amounts in the following tables are obtained from reports used by senior management and do not include income taxes. Other expenses not allocated include unallocated selling and distribution expenses, unallocated costs of sales, and unallocated corporate expenses. The accounting policies of the Company's segments are the same as those described in the summary of significant accounting policies set forth in Note 1 to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
<b>Net sales to external customers:</b>				
North American Retail Grocery	\$ 1,274,324	\$ 578,750	\$ 2,293,634	\$ 1,171,163
Food Away From Home	124,736	97,848	237,333	186,125
Industrial and Export	152,270	82,610	290,536	185,065
Unallocated	(9,941)		(9,941)	
<b>Total</b>	<b>\$ 1,541,389</b>	<b>\$ 759,208</b>	<b>\$ 2,811,562</b>	<b>\$ 1,542,353</b>
<b>Direct operating income:</b>				
North American Retail Grocery	\$ 155,678	\$ 81,256	\$ 283,633	\$ 158,356
Food Away From Home	19,050	14,539	34,965	26,562
Industrial and Export	12,803	14,097	33,893	35,619
<b>Total</b>	<b>187,531</b>	<b>109,892</b>	<b>352,491</b>	<b>220,537</b>
Unallocated selling and distribution expenses	(9,469)	(1,964)	(22,698)	(5,121)
Unallocated costs of sales (1)	(6,678)	646	(19,318)	(203)
Unallocated corporate expense and other	(119,791)	(54,053)	(239,955)	(113,996)
<b>Operating income</b>	<b>51,593</b>	<b>54,521</b>	<b>70,520</b>	<b>101,217</b>
Other expense	(29,418)	(6,734)	(53,125)	(27,629)

Income before income taxes	\$	22,175	\$	47,787	\$	17,395	\$	73,588
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(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 9.0% and 11.2% of total consolidated net sales in the six months ended June 30, 2016 and 2015, respectively, with 7.1% and 10.2% of total consolidated net sales going to Canada, respectively. The Company held 11.2% and 8.8% of its property, plant, and equipment outside of the United States as of June 30, 2016 and 2015, respectively.

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*Major Customers* Walmart Stores, Inc. and affiliates accounted for approximately 18.7% and 20.9% of consolidated net sales in the six months ended June 30, 2016 and 2015, respectively. No other customer accounted for more than 10% of our consolidated net sales.

*Product Information* The following table presents the Company's net sales by major products for the three and six months ended June 30, 2016 and 2015. In 2016, as a result of the acquisition of the Private Brands Business, the Company made the following changes to its product categories: (1) Snacks was renamed Snack nuts and now includes the bars, fruit snacks, and cereal snack mixes from the Private Brands Business, (2) Dry dinners was renamed Pasta and dry dinners and now includes the dry pasta from the Private Brands Business, (3) Mexican and other sauces was renamed Sauces and now includes the sauces from the Private Brands Business, (4) Cookies and crackers was added to include the crackers, cookies, pretzels, pita chips, and candy from the Private Brands Business, and (5) Retail bakery was added to include the in-store bakery products, refrigerated dough, frozen griddle products (pancakes, waffles, and French toast), frozen bread products (breads, rolls, and biscuits), dessert products (frozen cookies and frozen cookie dough), and dry bakery mixes from the Private Brands Business. These changes did not require prior period adjustments.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
<b>Products:</b>				
Snack nuts	\$ 351,398	\$ 165,381	\$ 611,395	\$ 311,880
Retail bakery	159,060		271,863	
Cookies and crackers	159,340		263,239	
Cereals	139,205	34,247	251,177	77,287
Pasta and dry dinners	133,637	29,524	235,548	62,935
Beverages	117,812	92,670	225,405	203,670
Salad dressings	103,914	100,178	197,589	184,344
Pickles	92,598	86,407	166,928	157,469
Sauces	87,027	58,795	163,683	117,226
Beverage enhancers	71,007	78,416	153,046	164,529
Soup and infant feeding	61,291	59,514	146,141	158,322
Aseptic products	24,533	29,092	51,365	53,970
Jams	28,910	12,273	49,866	24,222
Other products	11,657	12,711	24,317	26,499
<b>Total net sales</b>	<b>\$ 1,541,389</b>	<b>\$ 759,208</b>	<b>\$ 2,811,562</b>	<b>\$ 1,542,353</b>



**Table of Contents****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. As described in Note 11, Protenergy Holdings, Inc. and Protenergy Natural Foods, Inc. were added as Guarantor Subsidiaries in the first quarter of 2016. Additionally, in connection with the acquisition of the Private Brands Business, TreeHouse Private Brands, Inc. (formerly Ralcorp Holdings, Inc.); American Italian Pasta Co.; Nutcracker Brands; Linette Quality Chocolates; Ralcorp Frozen Bakery Products, Inc.; Cottage Bakery, Inc.; and The Carriage House Companies, Inc. were added as guarantors during the first quarter of 2016. In the fourth quarter of 2015, Associated Brands, Inc.; Cains Foods, Inc.; Cains Foods L.P.; Cains GP, LLC; and Flagstone Foods, Inc. (formerly known as Snacks Holding Corporation) were added as Guarantor Subsidiaries. There are no significant restrictions on the ability of the parent company or any guarantor to obtain funds from its subsidiaries by dividend or loan. The following condensed supplemental consolidating financial information presents the results of operations, financial position and cash flows of the parent company, its Guarantor Subsidiaries, its non-guarantor subsidiaries and the eliminations necessary to arrive at the information for the Company on a consolidated basis as of June 30, 2016 and 2015, and for the three and six months ended June 30, 2016 and 2015. 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. As a result of the addition of the guarantors noted above, the following condensed supplemental consolidating financial information has been recast for prior periods as if the new guarantor structure existed for all periods presented, as of the acquisition dates of the respective guarantors.

**Condensed Supplemental Consolidating Balance Sheet**  
**June 30, 2016**  
(In thousands)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$ 741	\$ 50,850	\$	\$ 51,591
Investments			9,641		9,641
Accounts receivable, net	1,342	314,970	46,149		362,461
Inventories, net		877,991	111,415		989,406
Assets held for sale		2,674			2,674
Prepaid expenses and other current assets	43,042	20,466	22,490		85,998
<b>Total current assets</b>	<b>44,384</b>	<b>1,216,842</b>	<b>240,545</b>		<b>1,501,771</b>
Property, plant, and equipment, net	26,679	1,181,805	152,786		1,361,270

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Goodwill		2,655,511		132,512		2,788,023
Investment in subsidiaries	5,220,809	507,230		(5,728,039)		
Intercompany accounts receivable (payable), net	368,086	(341,516)		(26,570)		
Deferred income taxes	18,649			(18,649)		
Intangible and other assets, net	50,956	1,063,531		133,052		1,247,539
Total assets	\$ 5,729,563	\$ 6,283,403	\$ 632,325	\$ (5,746,688)	\$ 6,898,603	

**Liabilities and Stockholders**

**Equity**

Current liabilities:

Accounts payable and accrued expenses	\$ 66,006	\$ 485,611	\$ 54,806	\$ 606,423
Current portion of long-term debt	46,552	3,222	155	49,929
Total current liabilities	112,558	488,833	54,961	656,352
Long-term debt	2,858,093	1,121	288	2,859,502
Deferred income taxes		384,349	47,658	(18,649)
Other long-term liabilities	10,136	188,291	22,188	220,615
Stockholders equity	2,748,776	5,220,809	507,230	(5,728,039)
Total liabilities and stockholders equity	\$ 5,729,563	\$ 6,283,403	\$ 632,325	\$ (5,746,688)



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

**Condensed Supplemental Consolidating Balance Sheet**  
**December 31, 2015**  
(In thousands)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 10,384	\$ 91	\$ 24,444	\$	\$ 34,919
Investments			8,388		8,388
Accounts receivable, net	17	182,524	20,657		203,198
Inventories, net		510,255	73,860		584,115
Prepaid expenses and other current assets	17,625	6,608	8,968	(16,618)	16,583
Total current assets	28,026	699,478	136,317	(16,618)	847,203
Property, plant, and equipment, net	26,294	470,639	44,595		541,528
Goodwill		1,526,004	123,790		1,649,794
Investment in subsidiaries	2,411,532	338,849		(2,750,381)	
Intercompany accounts receivable (payable), net	582,267	(553,408)	(28,859)		
Deferred income taxes	18,092			(18,092)	
Intangible and other assets, net	46,041	504,127	114,103		664,271
Total assets	\$ 3,112,252	\$ 2,985,689	\$ 389,946	\$ (2,785,091)	\$ 3,702,796
<b>Liabilities and Stockholders Equity</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 16,526	\$ 239,316	\$ 21,356	\$ (16,618)	\$ 260,580
Current portion of long-term debt	11,621	3,116	156		14,893
Total current liabilities	28,147	242,432	21,512	(16,618)	275,473
Long-term debt	1,219,011	2,398	332		1,221,741
Deferred income taxes		272,910	24,290	(18,092)	279,108
Other long-term liabilities	10,235	56,417	4,963		71,615

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Stockholders equity	1,854,859	2,411,532	338,849	(2,750,381)	1,854,859
Total liabilities and stockholders equity	\$ 3,112,252	\$ 2,985,689	\$ 389,946	\$ (2,785,091)	\$ 3,702,796

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

**Condensed Supplemental Consolidating Statement of Income**  
**Three Months Ended June 30, 2016**  
(In thousands)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 1,454,403	\$ 159,063	\$ (72,077)	\$ 1,541,389
Cost of sales		1,210,669	136,991	(72,077)	1,275,583
Gross profit		243,734	22,072		265,806
Selling, general, and administrative expense	22,900	143,242	16,288		182,430
Amortization expense	2,256	23,842	2,380		28,478
Other operating expense, net		2,763	542		3,305
Operating (loss) income	(25,156)	73,887	2,862		51,593
Interest expense	31,076	344	1,336	(1,218)	31,538
Interest income	(1)	(1,587)	(272)	1,218	(642)
Other expense (income), net	1	2,599	(4,078)		(1,478)
(Loss) income before income taxes	(56,232)	72,531	5,876		22,175
Income taxes (benefit)	(21,231)	27,903	(145)		6,527
Equity in net income (loss) of subsidiaries	50,649	6,021		(56,670)	
Net income (loss)	\$ 15,648	\$ 50,649	\$ 6,021	\$ (56,670)	\$ 15,648

**Condensed Supplemental Consolidating Statement of Income**  
**Three Months Ended June 30, 2015**  
(In thousands)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 712,052	\$ 98,509	\$ (51,353)	\$ 759,208
Cost of sales		569,470	89,720	(51,353)	607,837
Gross profit		142,582	8,789		151,371

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Selling, general, and administrative expense	15,276	56,767	9,121	81,164	
Amortization expense	2,044	10,914	2,593	15,551	
Other operating expense, net		135		135	
Operating (loss) income	(17,320)	74,766	(2,925)	54,521	
Interest expense	10,900	220	1,723	(1,471)	11,372
Interest income	(1)	(1,471)	(193)	1,471	(194)
Other expense (income), net	2	(3,287)	(1,159)	(4,444)	
(Loss) income before income taxes	(28,221)	79,304	(3,296)	47,787	
Income taxes (benefit)	(10,777)	28,927	(1,725)	16,425	
Equity in net income (loss) of subsidiaries	48,806	(1,571)		(47,235)	
Net income (loss)	\$ 31,362	\$ 48,806	\$ (1,571)	\$ (47,235)	\$ 31,362

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

**Condensed Supplemental Consolidating Statement of Income**  
**Six Months Ended June 30, 2016**  
(In thousands)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	2,659,193	292,827	(140,458)	2,811,562
Cost of sales		2,207,789	253,862	(140,458)	2,321,193
Gross profit		451,404	38,965		490,369
Selling, general, and administrative expense	76,616	259,656	26,264		362,536
Amortization expense	4,459	43,230	4,625		52,314
Other operating expense, net		4,095	904		4,999
Operating (loss) income	(81,075)	144,423	7,172		70,520
Interest expense	56,429	291	2,852	(2,366)	57,206
Interest income	(2,228)	(2,923)	(676)	2,366	(3,461)
Other expense (income), net	2	(2,066)	1,444		(620)
(Loss) income before income taxes	(135,278)	149,121	3,552		17,395
Income taxes (benefit)	(51,261)	58,145	(1,791)		5,093
Equity in net income (loss) of subsidiaries	96,319	5,343		(101,662)	
Net income (loss)	\$ 12,302	96,319	5,343	(101,662)	12,302

**Condensed Supplemental Consolidating Statement of Income**  
**Six Months Ended June 30, 2015**  
(In thousands)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 1,447,818	\$ 212,070	\$ (117,535)	\$ 1,542,353
Cost of sales		1,168,660	187,420	(117,535)	1,238,545
Gross profit		279,158	24,650		303,808

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Selling, general, and administrative expense	33,041	117,928	20,393		171,362
Amortization expense	3,871	21,792	5,216		30,879
Other operating expense, net		350			350
Operating (loss) income	(36,912)	139,088	(959)		101,217
Interest expense	22,430	382	3,168	(2,916)	23,064
Interest income	(1,431)	(2,916)	(532)	2,916	(1,963)
Other expense (income), net	(2)	5,791	739		6,528
(Loss) income before income taxes	(57,909)	135,831	(4,334)		73,588
Income taxes (benefit)	(22,113)	49,313	(2,826)		24,374
Equity in net income (loss) of subsidiaries	85,010	(1,508)		(83,502)	
Net income (loss)	\$ 49,214	\$ 85,010	\$ (1,508)	\$ (83,502)	\$ 49,214

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

**Condensed Supplemental Consolidating Statement of Comprehensive Income**  
**Three Months Ended June 30, 2016**  
(In thousands)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income (loss)	\$ 15,648	\$ 50,649	\$ 6,021	\$ (56,670)	\$ 15,648
Other comprehensive income:					
Foreign currency translation adjustments			4,617		4,617
Pension and postretirement reclassification adjustment, net of tax		258			258
Other comprehensive income		258	4,617		4,875
Equity in other comprehensive income (loss) of subsidiaries	4,875	4,617		(9,492)	
Comprehensive income (loss)	\$ 20,523	\$ 55,524	\$ 10,638	\$ (66,162)	\$ 20,523

**Condensed Supplemental Consolidating Statement of Comprehensive Income**  
**Three Months Ended June 30, 2015**  
(In thousands)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income (loss)	\$ 31,362	\$ 48,806	\$ (1,571)	\$ (47,235)	\$ 31,362
Other comprehensive income:					
Foreign currency translation adjustments			6,219		6,219
Pension and postretirement reclassification adjustment, net of tax		256			256
Other comprehensive income		256	6,219		6,475
Equity in other comprehensive income (loss) of subsidiaries	6,475	6,219		(12,694)	

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Comprehensive income (loss)	\$	37,837	\$	55,281	\$	4,648	\$	(59,929)	\$	37,837
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**Table of Contents****TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Condensed Supplemental Consolidating Statement of Comprehensive Income**  
**Six Months Ended June 30, 2016**  
(In thousands)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income (loss)	\$ 12,302	\$ 96,319	\$ 5,343	\$ (101,662)	\$ 12,302
Other comprehensive (loss) income:					
Foreign currency translation adjustments			28,883		28,883
Pension and postretirement reclassification adjustment, net of tax		516			516
Other comprehensive (loss) income		516	28,883		29,399
Equity in other comprehensive (loss) income of subsidiaries	29,399	28,883		(58,282)	
Comprehensive income (loss)	\$ 41,701	\$ 125,718	\$ 34,226	\$ (159,944)	\$ 41,701

**Condensed Supplemental Consolidating Statement of Comprehensive Income**  
**Six Months Ended June 30, 2015**  
(In thousands)

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net income (loss)	\$ 49,214	\$ 85,010	\$ (1,508)	\$ (83,502)	\$ 49,214
Other comprehensive (loss) income:					
Foreign currency translation adjustments			(20,318)		(20,318)
Pension and postretirement reclassification adjustment, net of tax		512			512
Other comprehensive (loss) income		512	(20,318)		(19,806)
Equity in other comprehensive (loss) income of subsidiaries	(19,806)	(20,318)		40,124	

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Comprehensive income (loss)	\$	29,408	\$	65,204	\$	(21,826)	\$	(43,378)	\$	29,408
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Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Condensed Supplemental Consolidating Statement of Cash Flows**  
**Six Months Ended June 30, 2016**  
(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>					
Net cash provided by (used in) operating activities	\$ 45,799	\$ 300,279	\$ (7,922)	\$ (101,147)	\$ 237,009
<b>Cash flows from investing activities:</b>					
Additions to property, plant, and equipment	(1,117)	(73,837)	(9,002)		(83,956)
Additions to intangible assets	(5,901)	(13)			(5,914)
Intercompany transfer	102,059	(30,755)		(71,304)	
Acquisitions, less cash acquired	(2,683,559)	337	43,021		(2,640,201)
Proceeds from sale of fixed assets		76	15		91
Purchase of investments			(530)		(530)
Increase in restricted cash		(605)			(605)
Other			(11)		(11)
Net cash (used in) provided by investing activities	(2,588,518)	(104,797)	33,493	(71,304)	(2,731,126)
<b>Cash flows from financing activities:</b>					
Net borrowing (repayment) of debt	1,702,844	(2,144)	4		1,700,704
Payment of deferred financing costs	(34,328)				(34,328)
Intercompany transfer	25,927	(192,688)	(5,690)	172,451	
Net proceeds from issuance of common stock	835,131				835,131
Net payments related to stock-based award activities	(762)				(762)
Excess tax benefits from stock-based compensation	3,523				3,523
Net cash provided by (used in) financing activities	2,532,335	(194,832)	(5,686)	172,451	2,504,268
Effect of exchange rate changes on cash and cash equivalents			6,521		6,521

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(Decrease) increase in cash and cash equivalents	(10,384)	650	26,406	16,672
Cash and cash equivalents, beginning of period	10,384	91	24,444	34,919
Cash and cash equivalents, end of period	\$	\$ 741	\$ 50,850	\$ 51,591

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## TREEHOUSE FOODS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Condensed Supplemental Consolidating Statement of Cash Flows

Six Months Ended June 30, 2015

(In thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Cash flows from operating activities:</b>					
Net cash provided by (used in) operating activities	\$ 31,490	\$ 197,748	\$ 2,554	\$ (82,993)	\$ 148,799
<b>Cash flows from investing activities:</b>					
Additions to property, plant, and equipment	(599)	(35,422)	(3,104)		(39,125)
Additions to intangible assets	(5,819)	(738)	(126)		(6,683)
Intercompany transfer	(11,587)	(86,534)		98,121	
Proceeds from sale of fixed assets		159	21		180
Purchase of investments			(311)		(311)
Net cash (used in) provided by investing activities	(18,005)	(122,535)	(3,520)	98,121	(45,939)
<b>Cash flows from financing activities:</b>					
Net repayment of debt	(112,000)	(1,958)	(59)		(114,017)
Intercompany transfer	86,230	(74,509)	3,407	(15,128)	
Net receipts related to stock-based award activities	1,112				1,112
Excess tax benefits from stock-based compensation	4,583				4,583
Net cash (used in) provided by financing activities	(20,075)	(76,467)	3,348	(15,128)	(108,322)
Effect of exchange rate changes on cash and cash equivalents			(1,955)		(1,955)

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(Decrease) increase in cash and cash equivalents	(6,590)	(1,254)	427	(7,417)
Cash and cash equivalents, beginning of period	18,706	1,690	31,585	51,981
Cash and cash equivalents, end of period	\$ 12,116	\$ 436	\$ 32,012	\$ 44,564

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Business Overview**

TreeHouse is a consumer packaged food and beverage manufacturer servicing retail grocery, food away from home, and industrial and export customers. We manufacture a variety of shelf stable, refrigerated, and fresh products. Our product categories include: beverages; salad dressings; snack nuts; beverage enhancers; cookies and crackers; retail bakery; pickles; sauces; soup and infant feeding; cereals; pasta and dry dinners; aseptic products; jams; and other products. 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 salad dressings, non-dairy powdered creamer, powdered drink mixes, instant hot cereals, snack nuts, crackers, pretzels, in-store bakery cookies, refrigerated dough, retail griddle items (waffles, pancakes, and French toast), dry pasta, ready-to-eat cereal, snack bars, and health and wellness bars in the United States and Canada, based on volume. We also believe we are the largest manufacturer of private label pickles, soup, and trail mixes in the United States, and the largest manufacturer of private label jams in Canada, based on volume.

The following discussion and analysis presents the factors that had a material effect on our results of operations for the three month and six month periods ended June 30, 2016 and 2015. 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.

We discuss the following three segments in this Management's Discussion and Analysis of Financial Condition and Results of Operations: North American Retail Grocery, Food Away From Home, and Industrial and Export. The key performance indicators of our segments are net sales dollars and direct operating income, which is gross profit less the cost of transporting products to customer locations (referred to in the tables below as freight out), commissions paid to independent sales brokers, and direct selling and marketing expenses. The segment results are presented on a consistent basis with the manner in which the Company reports its results to the chief operating decision maker, and does not include an allocation of taxes and other corporate expenses (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.

Our current operations consist of the following:

*North American Retail Grocery* Our North American Retail Grocery segment sells branded and private label products to customers within the United States and Canada. These products include non-dairy powdered creamers; sweeteners; condensed, ready to serve, and powdered soups, broths, and gravies; refrigerated and shelf stable salad dressings and sauces; mayonnaise; pickles and related products; Mexican, barbeque, and other sauces; table and flavored syrups; jams and pie fillings; aseptic products; liquid non-dairy creamer; powdered drinks; single serve hot beverages; specialty teas; ready-to-eat and hot cereals; baking and mix powders; macaroni and cheese; pasta; skillet dinners; in-store bakery products; refrigerated dough; retail griddle waffles, pancakes and French toast; cookies, crackers, pretzels, pita chips, and candy; snack nuts, bars, trail mixes, cereal snack mixes, fruit snacks, dried fruit, and other wholesome snacks.

*Food Away From Home* Our Food Away From Home segment sells non-dairy powdered creamers; sweeteners; pickles and related products; Mexican, barbeque, and other sauces; table and flavored syrups; refrigerated and shelf

stable dressings; mayonnaise; aseptic products; ready-to-eat and hot cereals; pasta; retail bakery products; cookies, crackers, pretzels, and candy; snack nuts; fruit snacks; powdered drinks; and single serve hot beverages to foodservice customers, including restaurant chains and food distribution companies, within the United States and Canada.

*Industrial and Export* Our Industrial and Export segment includes the Company's co-pack business and non-dairy powdered creamer sales to industrial customers for use in industrial applications, including products for repackaging in portion control packages and for use as ingredients by other food manufacturers. This segment primarily sells non-dairy powdered creamer; baking and mix powders; pickles and related products; refrigerated and shelf stable salad dressings; Mexican and barbeque sauces; aseptic products; soup and infant feeding products; ready-to-eat and hot cereals; powdered drinks; single serve hot beverages; specialty teas; pasta; retail griddle waffles, pancakes, and French toast; cookies, crackers, pretzels, and candy; snack nuts; bars; and other products. Export sales are primarily to industrial customers outside of North America.

From a macroeconomic perspective, the U.S economy showed continued variability, with continued job growth, increasing personal income, and uneven consumer spending; and while the U.S. Federal Reserve's intention is to gradually raise interest rates over the next three years, those increases have been delayed due to uneven domestic data, soft global growth, and the decision of the United Kingdom to exit the European Union.



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Consumer spending in the U.S. varied widely in the first half of 2016, with the first quarter showing flat to negative growth, and the second quarter rebounding with three consecutive months of expansion, resulting in retail sales growth of nearly 2.6% versus the prior year. Despite increased consumer spending in the second quarter, certain food expenditures continue to show contraction. For example, overall food volume in measured channels was approximately 1.4% lower in the second quarter of 2016 versus the same quarter last year. However, after factoring in non-measured channels and the annual U.S. population growth rate of approximately 0.8%, total food volumes in both measured and non-measured channels are expected to be slightly positive, and in the same range as population growth. From a pricing perspective, private label food products in measured channels showed a 0.2% reduction in pricing, reflective of lower commodity costs being passed along to consumers.

While overall volume growth appears to be limited, certain retail sectors are experiencing growth as consumers continue to snack and seek out 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 products is expected to drive the overall growth in these product categories. These trends are prompting companies to increase or adjust their product offerings, while retaining their commitment to providing these offerings at reasonable prices. In an effort to respond to shifting consumer demand, the Company offers an increasing variety of snacks, natural, and organic products.

The Company achieved a 103.0% increase in net sales during the second quarter of 2016 when compared to the same period last year, as recent acquisitions and increased volume/mix offset the impact of lower pricing and unfavorable foreign exchange. Overall, the Company's volume/mix increased 2.3% in the second quarter of 2016 versus last year. Volume/mix in North American Retail Grocery and Industrial and Export increased 4.0% and 4.7%, respectively, while volume/mix in Food Away from Home decreased 9.3% in the quarter. Consistent with recent industry trends, the Company's better for you and premium products continued to do well, posting a 14.9% increase in net sales during the quarter.

Total direct operating income, the measure of our segment profitability, increased in the second quarter of 2016 by approximately 70.7% over the same period last year, primarily from acquisitions. Despite the increase in total dollars, direct operating income as a percentage of net sales decreased 240 basis points from last year to 12.1%, resulting from a higher mix of lower margin sales from recent acquisitions. Direct operating income before considering the acquisition was flat year-over-year, as favorable input costs helped to offset the impact of lower pricing and unfavorable foreign exchange.

The overarching themes impacting the second quarter of 2016 include (1) the February 2016 acquisition of the Private Brands Business, (2) a total Company volume/mix increase of 2.3% despite continued competitive pressures, (3) higher operating costs resulting from the growth of the Company, and (4) continued unfavorable foreign exchange rates negatively impacting year-over-year sales and profitability.

As compared to the second quarter of 2015, the average Canadian foreign exchange rate in 2016 was 4.6% weaker, impacting both net sales and profitability. The Company estimates that net sales were negatively impacted by 0.6%. To help mitigate further profitability erosion, the Company closely monitors the Canadian / U.S. dollar exchange rate, and at times enters into foreign exchange contracts.

**Recent Developments***Private Brands Business Acquisition*

On February 1, 2016, the Company completed its acquisition of the private brands business of ConAgra Foods, Inc. ( Private Brands Business ) for approximately \$2.7 billion, excluding transaction expenses and subject to working capital and other adjustments. The acquisition was funded by a public issuance of common stock, a private issuance of senior unsecured notes, and a new term loan, with the remaining balance funded by borrowings from the Company's Revolving Credit Facility. Subsequent to quarter end, the working capital adjustment was finalized on July 25, 2016, resulting in a payment of \$4.2 million to ConAgra Foods, Inc. that is reflected as a purchase price adjustment in the Condensed Consolidated Financial Statements. See Note 4 to the Condensed Consolidated Financial Statements for more information regarding the Private Brands Business.

On January 26, 2016, the Company issued 13,269,230 of its shares pursuant to a public offering, resulting in gross proceeds to the Company of \$862.5 million. Net cash from the offering, after considering issuance costs, was approximately \$835.1 million. The net proceeds from the offering were used to fund a portion of the acquisition price of the Private Brands Business.

On January 29, 2016, the Company completed an exempt offering under Rule 144A and Regulation S of the Securities Act of \$775 million in aggregate principal amount of 6.0% senior unsecured notes ( 2024 Notes ) due February 15, 2024. The net proceeds from the issuance of the 2024 Notes (approximately \$760.7 million after deducting issuance costs) were used to fund a portion of the acquisition price of the Private Brands Business. Interest on the 2024 Notes will be paid on February 15th and August 15th of each year, beginning August 15, 2016.

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On February 1, 2016, the Term Loan A-2 financing was funded at \$1,025.0 million coincident with the closing of the acquisition and has a term of 5 years. Interest on the Term Loan A-2 financing is based on the Company's consolidated leverage ratio, and is determined by either (i) LIBOR, plus a margin ranging from 1.25% to 3.00%, or (ii) a Base Rate (as defined in the Credit Agreement), plus a margin ranging from 0.25% to 2.00%. Payments are due on a quarterly basis. The Company obtained Term Loan A-2 pursuant to an Amended and Restated Credit Agreement, dated as of February 1, 2016. The Amended and Restated Credit Agreement amends the Company's Prior Credit Agreement, dated as of May 6, 2014. Significant components of the Amended and Restated Credit Agreement include (but are not limited to) (1) changes to the maturity dates of the Revolving Credit Facility, Term Loan A, and Term Loan A-1 so that they are coterminous and will mature on February 1, 2021, (2) issuance of Term Loan A-2, (3) the Credit Agreement 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 Amended and Restated Credit Agreement contains substantially the same covenants as the prior Credit Agreement.

*Plant Closures*

On May 24, 2016, the Company announced its intention to close its Azusa, California and Ripon, Wisconsin facilities. The decision to close the facilities follows an analysis of the Company's plant network to align operations with current and future needs of its customers and eliminate excess manufacturing capacity. Full facility closure and the end of production at Azusa is expected to occur in the second quarter of 2017. Full facility closure and the end of production at Ripon is expected to occur in the fourth quarter of 2016. Total costs to close the facilities are expected to be approximately \$17.0 million, of which approximately \$14.5 million is expected to be in cash. Components of the charges include non-cash asset write-offs of approximately \$2.5 million, employee-related costs of approximately \$4.3 million, and other closure costs of approximately \$10.2 million. The Company expects to incur approximately \$4.0 million of charges on a quarterly basis from the third quarter of 2016 through the second quarter of 2017.

On April 5, 2016, the Company announced its intention to close its Ayer, Massachusetts facility. The decision to close the facility is the result of an ongoing manufacturing network analysis by the Company to maintain competitive costs, service levels, and product quality. Production is expected to cease in the first quarter of 2017 with full closure of the facility expected to occur in the third quarter of 2017. Total costs to close the facility are expected to be approximately \$6.5 million, of which approximately \$5.3 million is expected to be in cash. Components of the charges include non-cash asset write-offs of approximately \$1.2 million, employee-related costs of approximately \$2.2 million, and other closure costs of approximately \$3.1 million. The Company expects to incur approximately \$3.9 million of charges in 2016.

*Product Recall*

On May 3, 2016, the Company announced the voluntary recall of products that may be impacted by sunflower seeds contaminated with *Listeria monocytogenes* (*L.mono*). The recall was expanded on May 19, 2016 and again on June 2, 2016. Product was distributed nationwide through retail stores, and no illnesses have been reported to date. Based on available information, the Company has incurred \$15.2 million in charges for the recall, and is unable to determine the full cost at this time. The Company expects to be fully indemnified for all costs associated with the recall.

*Interest Rate Swap Agreements*

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. The borrowing cost on the swapped principal will range from 2.11% to 3.86%

during the life of the swap agreement based on the credit spreads under the Amended and Restated Credit Agreement.

**Table of Contents****Results of Operations**

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)				(Dollars in thousands)			
Net sales	\$ 1,541,389	100.0%	\$ 759,208	100.0%	\$ 2,811,562	100.0%	\$ 1,542,353	100.0%
Cost of sales	1,275,583	82.8	607,837	80.1	2,321,193	82.6	1,238,545	80.3
Gross profit	265,806	17.2	151,371	19.9	490,369	17.4	303,808	19.7
Operating expenses:								
Selling and distribution	104,363	6.8	42,797	5.6	189,835	6.8	88,595	5.7
General and administrative	78,067	5.1	38,367	5.1	172,701	6.1	82,767	5.4
Amortization expense	28,478	1.8	15,551	2.0	52,314	1.9	30,879	2.0
Other operating expense, net	3,305	0.2	135		4,999	0.2	350	
Total operating expenses	214,213	13.9	96,850	12.7	419,849	15.0	202,591	13.1
Operating income	51,593	3.3	54,521	7.2	70,520	2.4	101,217	6.6
Other expense (income):								
Interest expense	31,538	2.0	11,372	1.5	57,206	2.0	23,064	1.5
Interest income	(642)		(194)		(3,461)	(0.2)	(1,963)	(0.1)
(Gain) loss on foreign currency exchange	(749)	(0.1)	(2,386)	(0.3)	(4,873)	(0.2)	9,000	0.6
Other (income) expense, net	(729)		(2,058)	(0.3)	4,253	0.2	(2,472)	(0.2)
	29,418	1.9	6,734	0.9	53,125	1.8	27,629	1.8

Total other  
expense

Income before income taxes	22,175	1.4	47,787	6.3	17,395	0.6	73,588	4.8
Income taxes	6,527	0.4	16,425	2.2	5,093	0.2	24,374	1.6
Net income	\$ 15,648	1.0%	\$ 31,362	4.1%	\$ 12,302	0.4%	\$ 49,214	3.2%

**Table of Contents****Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015**

*Net Sales* Second quarter net sales increased 103.0% to \$1,541.4 million in 2016 compared to \$759.2 million in the second quarter of 2015. The increase was due to sales from the 2016 acquisition of the Private Brands Business and favorable volume/mix, partially offset by unfavorable pricing and foreign exchange. During the second quarter of 2016, the Company announced a recall of certain products that impacted net sales by \$9.9 million, which was not allocated to the segments. The Company expects to be fully indemnified for the amount. Net sales by segment are shown in the following table:

	<b>Three Months Ended June 30,</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ Increase/ (Decrease)</b>	<b>% Increase/ (Decrease)</b>
	<b>(Dollars in thousands)</b>			
North American Retail Grocery	\$ 1,274,324	\$ 578,750	\$ 695,574	120.2%
Food Away From Home	124,736	97,848	26,888	27.5
Industrial and Export	152,270	82,610	69,660	84.3
Unallocated	(9,941)		(9,941)	
<b>Total</b>	<b>\$ 1,541,389</b>	<b>\$ 759,208</b>	<b>\$ 782,181</b>	<b>103.0%</b>

*Cost of Sales* All expenses incurred to bring a product to completion are included in cost of sales. These include the costs of raw materials, ingredients and packaging, labor, facilities and equipment, operation and maintenance of our warehouses, and transportation of our finished products from our manufacturing facilities to distribution centers. Cost of sales as a percentage of net sales was 82.8% in the second quarter of 2016, compared to 80.1% in 2015. Contributing to the increase in cost of sales as a percentage of net sales was the impact of lower margin products from the recent acquisition, which accounts for approximately 160 basis points of the increase in cost of sales as a percentage of net sales. Also contributing to the increase in cost of sales relative to net sales was the year-over-year impact of unfavorable foreign exchange and increased operating costs, which more than offset the impact of favorable input costs. Included in cost of sales was approximately \$5.3 million of costs related to the product recall in the second quarter of 2016 as compared to none in the prior year. The Company expects to be fully indemnified for all costs associated with the recall.

*Operating Expenses* Total operating expenses were \$214.2 million in the second quarter of 2016 compared to \$96.9 million in 2015. The increase in 2016 resulted from the following:

Selling and distribution expenses increased \$61.6 million, or 143.9% in the second quarter of 2016 compared to 2015 primarily due to \$57.9 million of incremental costs from the recent acquisition. Also contributing to the increase were additional investments in the sales force.

General and administrative expenses increased by \$39.7 million in the second quarter of 2016 compared to 2015, of which \$28.3 million pertains to continuing costs of the acquired business. Also contributing to the increase was \$4.6 million of acquisition and integration costs in the second quarter of 2016 as compared to \$0.6 million in the prior year. The remaining increase of \$7.4 million was due to the general growth of the business and higher incentive compensation as compared to the prior year. In the prior year, the Company reduced incentive compensation due to operating results.

Amortization expense increased \$12.9 million in the second quarter of 2016 compared to 2015, due to the amortization of intangible assets from the acquisition.

Other operating expense in the second quarter of 2016 was \$3.3 million, compared to \$0.1 million in 2015. The increase was due to higher costs associated with restructurings that were announced in recent quarters with respect to the Company's closure of the City of Industry, California; Ayer, Massachusetts; Azusa, California; and Ripon, Wisconsin facilities.

*Interest Expense* Interest expense increased to \$31.5 million in the second quarter of 2016, compared to \$11.4 million in 2015, due to higher debt levels and interest rates from financing the acquisition.

*Interest Income* Interest income of \$0.6 million relates to interest earned on the cash held by our Canadian subsidiaries and gains on investments discussed in Note 5.

*Foreign Currency* The Company's foreign currency impact was a \$0.7 million gain for the second quarter of 2016, compared to a gain of \$2.4 million in 2015, primarily due to fluctuations in currency exchange rates between the U.S. and Canadian dollar from the beginning to ending dates of the respective quarters.



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*Other (Income) Expense, net* Other income was \$0.7 million for the second quarter of 2016, compared to income of \$2.1 million in 2015. The change was due to the non-cash mark-to-market adjustments on derivative contracts, primarily foreign currency contracts and interest rate swap agreements, and the write-off of the indemnification asset discussed below.

*Income Taxes* Income tax expense was recorded at an effective rate of 29.4% in the second quarter of 2016 compared to 34.4% in the prior year's second quarter. During the second quarter of 2016, the Company's effective tax rate was favorably impacted by the reversal of a \$0.9 million tax reserve assumed in a prior acquisition. The Company also recognized \$0.9 million of non-operating expense for the write-off of the related indemnification asset, which is included in Other (income) expense, net.

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 and 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.

**Table of Contents****Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015 Results by Segment***North American Retail Grocery*

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	\$ 1,274,324	100.0%	\$ 578,750	100.0%
Cost of sales	1,036,114	81.3	464,364	80.2
Gross profit	238,210	18.7	114,386	19.8
Freight out and commissions	55,337	4.3	22,295	3.9
Direct selling and marketing	27,195	2.2	10,835	1.9
Direct operating income	\$ 155,678	12.2%	\$ 81,256	14.0%

Net sales in the North American Retail Grocery segment increased by \$695.6 million, or 120.2%, in the second quarter of 2016 compared to 2015. The change in net sales from 2015 to 2016 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2015 Net sales	\$ 578,750	
Volume/mix	22,984	4.0 %
Pricing	(3,455)	(0.6)
Acquisitions	679,526	117.4
Foreign currency	(3,481)	(0.6)
2016 Net sales	\$ 1,274,324	120.2 %

The increase in net sales from 2015 to 2016 resulted from the acquisition of the Private Brands Business and improved volume/mix, partially offset by unfavorable pricing and foreign exchange. During the second quarter of 2016, volume/mix increases in single serve beverages and carton soup were partially offset by lower volume/mix primarily in pickles, non-dairy creamer, and sauces.

Cost of sales as a percentage of net sales in the second quarter of 2016 increased 1.1% compared to last year, as the impact of lower margin products from the Private Brands Business and unfavorable foreign exchange offset improved sales mix and favorability from lower commodity costs. The Company estimates the acquisition increased cost of sales as a percentage of net sales by approximately 1.6%.

Freight out and commissions paid to independent sales brokers were \$55.3 million in the second quarter of 2016, compared to \$22.3 million in 2015. The Private Brands Business acquisition accounted for \$34.7 million of the increase. Before considering the Private Brands Business acquisition, costs were slightly lower primarily due to decreased freight costs.

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Direct selling and marketing expenses were \$27.2 million in the second quarter of 2016 and \$10.8 million in 2015. The acquisition of the Private Brands Business accounted for \$13.4 million of the increase, with the remaining amount being due to investments in the sales force.

**Table of Contents***Food Away From Home*

	2016		2015	
	Dollars	Percent	Dollars	Percent
(Dollars in thousands)				
Net sales	\$ 124,736	100.0%	\$ 97,848	100.0%
Cost of sales	98,028	78.6	77,569	79.3
Gross profit	26,708	21.4	20,279	20.7
Freight out and commissions	4,521	3.6	3,699	3.7
Direct selling and marketing	3,137	2.5	2,041	2.1
Direct operating income	\$ 19,050	15.3%	\$ 14,539	14.9%

Net sales in the Food Away From Home segment increased by \$26.9 million, or 27.5%, in the second quarter of 2016 compared to the prior year. The change in net sales from 2015 to 2016 was due to the following:

	Dollars	Percent
(Dollars in thousands)		
2015 Net sales	\$ 97,848	
Volume/mix	(9,080)	(9.3) %
Pricing	674	0.7
Acquisitions	35,715	36.5
Foreign currency	(421)	(0.4)
2016 Net sales	\$ 124,736	27.5 %

Net sales increased during the second quarter of 2016 compared to 2015 as the increase from the acquisition of the Private Brands Business was partially offset by unfavorable volume/mix. Volume/mix increases in hot cereals were more than offset by volume/mix reductions in most other product categories, the most significant being pickles, aseptic products, and salad dressings, reflecting competitive pressures.

Cost of sales as a percentage of net sales decreased to 78.6% in the second quarter of 2016 from 79.3% in 2015 due to the impact of higher margin products from the Private Brands Business and favorable input costs that were partially offset by unfavorable foreign exchange for the Canadian operations. The Company estimates the acquisition decreased cost of sales as a percentage of net sales by approximately 0.8%.

Freight out and commissions paid to independent sales brokers increased in the second quarter of 2016 by \$0.8 million compared to 2015, due to the acquisition. Despite the increase in total expense, freight out and commissions decreased as a percentage of net sales.

Direct selling and marketing increased to \$3.1 million in the second quarter of 2016 from \$2.0 million in 2015 due to the acquisition and investments in the sales force, resulting in a slightly higher percentage of net sales.



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

	Three Months Ended June 30,		2015	
	2016			
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	\$ 152,270	100.0%	\$ 82,610	100.0%
Cost of sales	134,763	88.5	66,550	80.6
Gross profit	17,507	11.5	16,060	19.4
Freight out and commissions	3,745	2.5	1,427	1.7
Direct selling and marketing	959	0.6	536	0.6
Direct operating income	\$ 12,803	8.4%	\$ 14,097	17.1%

Net sales in the Industrial and Export segment increased \$69.7 million, or 84.3%, in the second quarter of 2016, compared to the prior year. The change in net sales from 2015 to 2016 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2015 Net sales	\$ 82,610	
Volume/mix	3,917	4.7 %
Pricing	(1,211)	(1.4)
Acquisitions	67,259	81.4
Foreign currency	(305)	(0.4)
2016 Net sales	\$ 152,270	84.3 %

Net sales increased during the second quarter of 2016 compared to 2015 as the increase from the acquisition of the Private Brands Business and increased volume/mix were partially offset by unfavorable pricing and foreign exchange. Volume/mix increases in pickles were partially offset by lower volume/mix in soup and infant feeding.

Cost of sales as a percentage of net sales increased from 80.6% in the second quarter of 2015 to 88.5% in 2016, primarily due to the impact of lower margin products from the Private Brands Business and a shift in legacy mix to lower margin products resulting from competitive pressures, particularly in infant feeding and non-dairy creamer. The Company estimates the acquisition increased cost of sales as a percentage of net sales by approximately 7.3%.

Freight out and commissions paid to independent sales brokers were \$3.7 million in the second quarter of 2016 and \$1.4 million in 2015. The increase is due to the impact of the acquisition and increased volume.

Direct selling and marketing increased to \$1.0 million in the second quarter of 2016 from \$0.5 million in 2015, primarily due to the acquisition.



**Table of Contents*****Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015***

*Net Sales* Net sales increased 82.3% to \$2,811.6 million in the first six months of 2016 compared to \$1,542.4 million in the first six months of 2015. The increase was due to sales from the 2016 acquisition of the Private Brands Business and favorable volume/mix, partially offset by unfavorable pricing and foreign exchange. During the second quarter of 2016, the Company announced a recall of certain products that impacted net sales by \$9.9 million, which was not allocated to the segments. The Company expects to be fully indemnified for the amount. Net sales by segment are shown in the following table:

	<b>Six Months Ended June 30,</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ Increase/ (Decrease)</b>	<b>% Increase/ (Decrease)</b>
<b>(Dollars in thousands)</b>				
North American Retail Grocery	\$ 2,293,634	\$ 1,171,163	\$ 1,122,471	95.8 %
Food Away From Home	237,333	186,125	51,208	27.5
Industrial and Export	290,536	185,065	105,471	57.0
Unallocated	(9,941)		(9,941)	
<b>Total</b>	<b>\$ 2,811,562</b>	<b>\$ 1,542,353</b>	<b>\$ 1,269,209</b>	<b>82.3 %</b>

*Cost of Sales* All expenses incurred to bring a product to completion are included in cost of sales. These include the costs of raw materials, ingredients and packaging, labor, facilities and equipment, operation and maintenance of our warehouses, and transportation of our finished products from our manufacturing facilities to distribution centers. Cost of sales as a percentage of net sales was 82.6% in the first six months of 2016, compared to 80.3% in 2015. Contributing to the increase in cost of sales as a percentage of net sales was the impact of lower margin products from the recent acquisition, which accounts for approximately 150 basis points of the increase in cost of sales as a percentage of net sales. Included in cost of sales was approximately \$8.4 million of acquisition and integration costs in the first six months of 2016 as compared to \$0.7 million in the prior year. Also contributing to the increase in cost of sales relative to net sales was the year-over-year impact of unfavorable foreign exchange, increased operating costs, and approximately \$5.3 million of costs related to the product recall, which more than offset the impact of favorable input costs. The Company expects to be fully indemnified for all costs associated with the recall.

*Operating Expenses* Total operating expenses were \$419.8 million during the first six months of 2016 compared to \$202.6 million in 2015. The increase in 2016 resulted from the following:

Selling and distribution expenses increased \$101.2 million, or 114.3%, in the first six months of 2016 compared to 2015, primarily due to \$98.8 million of incremental costs from the recent acquisition. Also contributing to the increase were additional investments in the sales force.

General and administrative expenses increased by \$89.9 million in the first six months of 2016 compared to 2015, of which \$42.8 million pertained to continuing costs of the acquired business. Also contributing to the increase was \$37.6 million of acquisition and integration costs in the first six months of 2016 as compared to \$1.3 million in the prior year. The remaining increase of \$10.8 million was due to the general growth of the business and higher incentive compensation as compared to prior year. In the prior year, the Company reduced incentive compensation due to operating results.



Amortization expense increased by \$21.4 million in the first six months of 2016 compared to 2015, due to the amortization of intangible assets from the acquisition.

Other operating expense in the first six months of 2016 was \$5.0 million, compared to \$0.4 million in 2015. The increase was due to higher costs associated with restructurings that were announced in recent quarters with respect to the Company's closure of the City of Industry, California; Ayer, Massachusetts; Azusa, California; and Ripon, Wisconsin facilities.

*Interest Expense* Interest expense increased to \$57.2 million in the first six months of 2016, compared to \$23.1 million in 2015, due to higher debt levels and interest rates from financing the acquisition.

*Interest Income* Interest income of \$3.5 million includes \$2.2 million of interest income recorded in the first quarter related to annual patronage refunds pertaining to Term Loan A. The patronage refund represents our participation in a capital plan related to our Term Loan A and is an annual payment based on a percentage of our average daily loan balance. The remaining interest income pertains to cash held by our Canadian subsidiaries and gains on investments, as discussed in Note 5.

*Foreign Currency* The Company's foreign currency impact was a \$4.9 million gain for the first six months of 2016, compared to a loss of \$9.0 million in 2015, primarily due to fluctuations in currency exchange rates between the U.S. and Canadian dollar from the beginning to ending dates of the respective six month periods.

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*Other (Income) Expense, net* Other expense was \$4.3 million for the first six months of 2016, compared to income of \$2.5 million in 2015. The change was due to the non-cash mark-to-market adjustments on derivative contracts, primarily foreign currency contracts and interest rate swap agreements, and the write-off of the indemnification asset discussed below.

*Income Taxes* Income tax expense was recorded at an effective rate of 29.3% in the first six months of 2016 compared to 33.1% in 2015. During the first six months of 2016, the Company's effective tax rate was favorably impacted by the reversal of a \$0.9 million tax reserve assumed in a prior acquisition. The Company also recognized \$0.9 million of non-operating expense for the write-off of the related indemnification asset, which is included in Other (income) expense, net.

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 and 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.

**Table of Contents****Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015 Results by Segment***North American Retail Grocery*

	Six Months Ended June 30, 2016		2015	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	\$ 2,293,634	100.0%	\$ 1,171,163	100.0%
Cost of sales	1,865,669	81.3	945,164	80.7
Gross profit	427,965	18.7	225,999	19.3
Freight out and commissions	98,312	4.3	46,143	4.0
Direct selling and marketing	46,020	2.0	21,500	1.8
Direct operating income	\$ 283,633	12.4%	\$ 158,356	13.5%

Net sales in the North American Retail Grocery segment increased by \$1,122.5 million, or 95.8%, in the first six months of 2016 compared to the first six months of 2015. The change in net sales from 2015 to 2016 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2015 Net sales	\$ 1,171,163	
Volume/mix	22,754	1.9 %
Pricing	(4,256)	(0.4)
Acquisitions	1,114,984	95.2
Foreign currency	(11,011)	(0.9)
2016 Net sales	\$ 2,293,634	95.8 %

The increase in net sales from 2015 to 2016 resulted from the acquisition of the Private Brands Business and increased volume/mix, partially offset by unfavorable foreign exchange and pricing. During the first six months of 2016, the Company experienced volume/mix increases in single serve beverages, carton soup, dressings, tea, and snack products that were partially offset by lower volume/mix in most other product categories.

Cost of sales as a percentage of net sales in the first six months of 2016 increased 0.6% compared to last year, as the impact of lower margin products from the Private Brands Business and unfavorable foreign exchange offset favorability from lower commodity costs. The Company estimates the acquisition increased cost of sales as a percentage of net sales by approximately 1.1%.

Freight out and commissions paid to independent sales brokers were \$98.3 million in the first six months of 2016, compared to \$46.1 million in 2015. The Private Brands Business acquisition accounted for \$56.6 million of the increase. Before considering the Private Brands Business acquisition, costs were lower due to decreased freight costs.

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Direct selling and marketing expenses were \$46.0 million in the first six months of 2016 and \$21.5 million in 2015. The Private Brands Business acquisition added \$19.9 million of costs. The remaining increase of \$4.6 million is primarily due to additional investments in the sales force and the general growth of the business.

**Table of Contents***Food Away From Home*

	<b>Six Months Ended June 30,</b>			
	<b>2016</b>		<b>2015</b>	
	<b>Dollars</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>
	<b>(Dollars in thousands)</b>			
Net sales	\$ 237,333	100.0%	\$ 186,125	100.0%
Cost of sales	187,686	79.1	148,489	79.8
Gross profit	49,647	20.9	37,636	20.2
Freight out and commissions	8,723	3.7	7,148	3.8
Direct selling and marketing	5,959	2.5	3,926	2.1
Direct operating income	\$ 34,965	14.7%	\$ 26,562	14.3%

Net sales in the Food Away From Home segment increased by \$51.2 million, or 27.5%, in the first six months of 2016 compared to the prior year. The change in net sales from 2015 to 2016 was due to the following:

	<b>Dollars</b>	<b>Percent</b>
	<b>(Dollars in thousands)</b>	
2015 Net sales	\$ 186,125	
Volume/mix	(8,809)	(4.8) %
Pricing	1,482	0.8
Acquisitions	59,673	32.1
Foreign currency	(1,138)	(0.6)
2016 Net sales	\$ 237,333	27.5 %

Net sales increased during the first six months of 2016 compared to 2015 primarily due to the acquisition of the Private Brands Business partially offset by unfavorable volume/mix. Volume/mix increases in hot cereals were more than offset by volume/mix reductions in pickles, dressings, and other sauces.

Cost of sales as a percentage of net sales decreased to 79.1% in the first six months of 2016 from 79.8% in 2015 due to the impact of higher margin products from the Private Brands Business and favorable input costs that were partially offset by unfavorable foreign exchange for the Canadian operations. The Company estimates the acquisition decreased cost of sales as a percentage of net sales by approximately 0.4%.

Freight out and commissions paid to independent sales brokers increased in the first six months of 2016 by \$1.6 million compared to 2015, due to the acquisition.

Direct selling and marketing increased to \$6.0 million in the first six months of 2016 from \$3.9 million in 2015, primarily due to the acquisition and additional investments in the sales force, resulting in a slightly higher percentage of net sales.



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

	<b>Six Months Ended June 30,</b>			
	<b>2016</b>		<b>2015</b>	
	<b>Dollars</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>
	<b>(Dollars in thousands)</b>			
Net sales	\$ 290,536	100.0%	\$ 185,065	100.0%
Cost of sales	248,520	85.5	144,689	78.2
Gross profit	42,016	14.5	40,376	21.8
Freight out and commissions	6,264	2.2	3,691	2.0
Direct selling and marketing	1,859	0.6	1,066	0.6
Direct operating income	\$ 33,893	11.7%	\$ 35,619	19.2%

Net sales in the Industrial and Export segment increased \$105.5 million, or 57.0%, in the first six months of 2016 compared to the prior year. The change in net sales from 2015 to 2016 was due to the following:

	<b>Dollars</b>	<b>Percent</b>
	<b>(Dollars in thousands)</b>	
2015 Net sales	\$ 185,065	
Volume/mix	(5,729)	(3.0) %
Pricing	(2,521)	(1.4)
Acquisitions	114,261	61.7
Foreign currency	(540)	(0.3)
2016 Net sales	\$ 290,536	57.0 %

Net sales increased during the first six months of 2016 compared to 2015 as the increase from the acquisition of the Private Brands Business was partially offset by unfavorable volume/mix and pricing. Volume/mix was lower due to competitive pressures primarily in single serve beverages and soup and infant feeding products, partially offset by an increase in pickles and non-dairy creamer.

Cost of sales as a percentage of net sales increased from 78.2% in the first six months of 2015 to 85.5% in 2016, primarily due to the impact of lower margin products from the Private Brands Business and a shift in legacy mix to lower margin products resulting from competitive pressures, particularly in single serve beverages and infant feeding. The Company estimates the acquisition increased cost of sales as a percentage of net sales by approximately 5.1%.

Freight out and commissions paid to independent sales brokers were \$6.3 million in the first six months of 2016 and \$3.7 million in 2015. The increase is primarily due to the impact of the acquisition.

Direct selling and marketing increased to \$1.9 million in the first six months of 2016 from \$1.1 million in 2015, primarily due to the acquisition.





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

Management assesses the Company's liquidity in terms of its ability to generate cash to fund its operating, investing, and financing activities. The Company continues to generate substantial cash flow from operating activities and remains in a strong financial position, with resources available for reinvesting in existing businesses, conducting acquisitions, and managing its capital structure on a short and long-term basis. If additional borrowings are needed, approximately \$575.4 million was available under the Revolving Credit Facility as of June 30, 2016. See Note 11 to our Condensed Consolidated Financial Statements for additional information regarding our Revolving Credit Facility. We believe that, given our cash flow from operating activities and our available credit capacity, we comply with the current terms of the Revolving Credit Facility and can meet foreseeable financial requirements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,302	\$ 49,214
Depreciation and amortization	132,826	61,767
Stock-based compensation	14,324	10,463
Deferred income taxes	(3,097)	(2,155)
Changes in operating assets and liabilities, net of acquisitions	85,631	28,233
Other	(4,977)	1,277
Net cash provided by operating activities	\$ 237,009	\$ 148,799

Our cash provided by operations was \$237.0 million in the first six months of 2016 compared to \$148.8 million in 2015, an increase of \$88.2 million, which is due, in part, to the acquisition of the Private Brands Business in February 2016. The following discussion describes the changes in cash from operating activities on a consolidated basis, including the operations of the Private Brands Business since the acquisition date. The increase in cash provided by operations is attributable to changes in working capital of \$57.4 million and lower net income being offset by higher levels of depreciation and amortization as compared to the prior year, which results in an additional \$34.1 million in cash flow.

Within working capital, receivables resulted in a use of \$44.6 million, as the seasonal decrease in receivables in the prior year outpaced the decrease this year. The change in receivables mirrored the sales trends experienced by the Company. Inventories provided approximately \$71.1 million of working capital, primarily from the change in the Private Brands Business's inventories since February 1, 2016. The inventory of the Private Brands Business decreased approximately \$75.6 million since February 1, 2016 due to lower commodity costs, the seasonality of the business, and improved inventory management. Prepaid expenses and other assets resulted in a use of \$45.6 million due to higher levels of prepaid taxes and software. Finally, accounts payable and accruals accounted for approximately \$76.5 million of the increase, in part due to higher interest accruals resulting from the recent debt issuance, more efficient

use of cash, and higher levels of accounts payable associated with the Private Brands Business (the Company did not assume payables for six plants as of the acquisition date, but has been responsible for post-acquisition payables).

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>	
<b>Cash flows from investing activities:</b>		
Additions to property, plant, and equipment	\$ (83,956)	\$ (39,125)
Additions to intangible assets	(5,914)	(6,683)
Acquisitions, less cash acquired	(2,640,201)	
Other	(1,055)	(131)
Net cash used in investing activities	\$ (2,731,126)	\$ (45,939)

In the first six months of 2016, cash used in investing activities increased by \$2.7 billion compared to 2015, due to the acquisition of the Private Brands Business in the first quarter of 2016.

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We expect capital spending programs to be approximately \$211 million in 2016. Capital spending in 2016 is focused on food safety, quality, productivity improvements, continued implementation of an Enterprise Resource Planning system, and routine equipment upgrades or replacements at our plants.

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>	
<b>Cash flows from financing activities:</b>		
Net borrowing (repayment) of debt	\$ 1,700,704	\$ (114,017)
Payment of deferred financing costs	(34,328)	
Net proceeds from issuance of common stock	835,131	
Equity award financing activities	2,761	5,695
Net cash provided by (used in) financing activities	\$ 2,504,268	\$ (108,322)

Net cash provided by financing activities increased \$2.6 billion in the first six months of 2016 compared to 2015, as the Company funded the acquisition of the Private Brands Business primarily through the issuance of common stock, the 2024 Notes, and Term Loan A-2.

As of June 30, 2016, \$50.9 million of cash held by our foreign subsidiaries as cash and cash equivalents is expected to be used for general corporate purposes in foreign jurisdictions, including capital projects and acquisitions. The cash relates to foreign earnings that, if repatriated, would result in a tax liability. As of June 30, 2016, \$2.9 million of cash is restricted from use to meet certain insurance requirements.

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

Our short-term financing needs are primarily for financing working capital, and due to the seasonal nature of our business, are generally highest in the second and third quarters as inventory levels increase relative to other quarters. As discussed in the *Seasonality* section, as our product portfolio has grown, we have shifted to a higher percentage of cold weather products, resulting in inventory builds in the second and third quarters, as the Company prepares for the fall and winter months. As a result of our product portfolio and the related seasonality, our financing needs are generally highest in the second and third quarters, while cash flow is highest in the fourth and first quarters following the seasonality of our sales. We expect our Revolving Credit Facility, plus cash flow from operations, to be adequate to provide liquidity for current operations. Our long-term financing needs depend largely on potential acquisition activity.

***Seasonality***

In the aggregate, our sales do not vary significantly by quarter but are slightly weighted toward the second half of the year, particularly the fourth quarter, with a more pronounced impact on profitability. As our product portfolio has grown, we have shifted to a higher percentage of cold weather products. Products that show a higher level of seasonality include non-dairy powdered creamer, coffee, specialty teas, cappuccinos, hot cereal, saltine and entertainment crackers, in-store bakery items, refrigerated dough products, and certain pasta products, all of which generally have higher sales in the first and fourth quarters. Additionally, sales of soup and snack nuts are generally

higher in the fourth quarter. Warmer weather products such as dressings, pickles, and condiments typically have higher sales in the second quarter, while drink mixes generally show higher sales in the second and third quarters. As a result of our product portfolio and the related seasonality, our financing needs are generally highest in the second and third quarters due to inventory builds, while cash flow is highest in the fourth and first quarters following the seasonality of our sales.

***Debt Obligations***

At June 30, 2016, we had \$271.0 million in borrowings outstanding under our Revolving Credit Facility, \$291.8 million outstanding under Term Loan A, \$185.0 million outstanding under Term Loan A-1, \$1,018.6 million outstanding under Term Loan A-2, \$400.0 million of the 2022 Notes outstanding, \$775.0 million of the 2024 Notes outstanding, and \$4.8 million of tax increment financing and other obligations. In addition, at June 30, 2016, there were \$53.6 million in letters of credit under the Revolving Credit Facility that were issued but undrawn.

Also, at June 30, 2016, our Revolving Credit Facility provided for an aggregate commitment of \$900 million, of which \$575.4 million was available. Interest rates on debt outstanding under the Revolving Credit Facility, Term Loan A, Term Loan A-1, and Term Loan A-2 (collectively known as the Amended and Restated Credit Agreement ) for the three months ended June 30, 2016 averaged 2.50%. The \$500 million of interest rate swap agreements does not go into effect until January 31, 2017.

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We are in compliance with all applicable debt covenants as of June 30, 2016. From an interest coverage ratio perspective, the Company's actual ratio as of June 30, 2016 is nearly 113.3% higher than the minimum required level. As it relates to the leverage ratio, the Company was nearly 33.1% below the maximum level.

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

**Non-GAAP Measures**

We have included in this report measures of financial performance that are not defined by GAAP ( Non-GAAP ). A non-GAAP financial measure is a numerical measure of financial performance that excludes or includes amounts so as to be different than the most directly comparable measure calculated and presented in accordance with GAAP in the Company's Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Income, Condensed Consolidated Statements of Comprehensive Income, and the Condensed Consolidated Statements of Cash Flows. We believe these measures provide useful information to the users of the financial statements as we also have included these measures in other communications and publications.

For each of these non-GAAP financial measures, we provide a reconciliation between the non-GAAP measure and the most directly comparable GAAP measure, an explanation of why management believes the non-GAAP measure provides useful information to financial statement users, and any additional purposes for which management uses the non-GAAP measure. This non-GAAP financial information is provided as additional information for the financial statement users and is not in accordance with, or an alternative to, GAAP. These non-GAAP measures may be different from similar measures used by other companies.

*Adjusted Diluted Earnings Per Share, Adjusting for Certain Items Affecting Comparability*

The adjusted earnings per fully diluted share ( Adjusted EPS ) data shown below reflects adjustments to GAAP earnings per fully diluted share data to identify items that, in management's judgment, significantly affect the assessment of earnings results between periods. This information is provided in order to allow investors to make meaningful comparisons of the Company's earnings performance between periods and to view the Company's business from the same perspective as Company management. This measure is also used as a component of the Board of Director's measurement of the Company's performance for incentive compensation purposes. As the Company cannot predict the timing and amount of charges that include, but are not limited to, items such as acquisition, integration, and related costs, mark-to-market adjustments on derivative contracts, foreign currency exchange impact on the re-measurement of intercompany notes, or facility closings and reorganizations, management does not consider these costs when evaluating the Company's performance, when making decisions regarding the allocation of resources, in determining incentive compensation for management, or in determining earnings estimates.

The reconciliation of diluted EPS, excluding certain items affecting comparability, to the relevant GAAP measure of diluted EPS as presented in the Condensed Consolidated Statements of Income, is as follows:

<b>Three Months Ended</b>		<b>Six Months Ended</b>	
<b>June 30,</b>		<b>June 30,</b>	
<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>(unaudited)</b>			

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Diluted EPS per GAAP	\$	0.27	\$	0.72	\$	0.22	\$	1.13
Product recall costs		0.27				0.27		
Acquisition, integration, and related costs		0.08		0.01		0.83		0.05
Restructuring/facility consolidation costs		0.05				0.13		0.01
Mark-to-market adjustments		(0.03)		(0.04)		0.06		(0.06)
Foreign currency (gain) loss on re-measurement of intercompany notes				(0.06)		(0.12)		0.19
Tax impact on adjusting items		(0.10)		0.03		(0.36)		(0.07)
Adjusted EPS	\$	0.54	\$	0.66	\$	1.03	\$	1.25

During the three and six months ended June 30, 2016 and 2015, the Company entered into transactions that affected the year-over-year comparison of its financial results that included product recall costs, acquisition and integration costs, restructuring costs, mark-to-market adjustments, foreign currency (gains) losses on intercompany notes and the related tax impact of these items.

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The product recall costs line represents an announced voluntary recall of products that may be impacted by sunflower seeds contaminated with *Listeria monocytogenes (L.mono)* that were provided by a supplier. Product was distributed nationwide through retail stores. TreeHouse initiated the voluntary recall as a cautionary measure to protect public health. Costs in this line include, but are not limited to, customer fees, customer reimbursements, inventory write-offs, and other costs to manage the recall. The Company expects to be fully reimbursed for these costs and will exclude the gain from earnings in the period in which the proceeds are received.

The acquisition, integration, and related costs line represents costs associated with completed and potential acquisitions. Costs incurred in the first six months of 2016 primarily related to the acquisition of the Private Brands Business, which was completed on February 1, 2016, while costs incurred in the first six months of 2015 primarily related to the Flagstone and Protenergy acquisitions, which were completed in 2014. Costs associated with integrating the businesses into the Company's operations are also included in this line.

During the second quarter of 2016, the Company incurred approximately \$3.1 million in restructuring and facility consolidation costs versus \$0.1 million last year. For the six months ended June 30, 2016 and 2015, the Company incurred restructuring and facility consolidation costs of approximately \$7.0 million and \$0.4 million, respectively. See Note 3 of the Condensed Consolidated Financial Statements for additional information on the restructuring activity of the Company.

The Company's derivative contracts are marked-to-market each period with the unrealized changes in fair value being recorded in the Condensed Consolidated Statements of Income. These are non-cash charges. As the contracts are settled, realized gains and losses are recognized and included in earnings.

The Company has Canadian dollar denominated intercompany loans and incurred foreign currency gains of \$0.1 million in the second quarter of 2016 versus \$2.5 million in the prior year to re-measure the loans at quarter end. For the six months ended June 30, 2016 and 2015, the Company incurred foreign currency gains of \$6.6 million and losses of \$8.3 million, respectively. These charges are non-cash and the loans are eliminated in consolidation.

The tax impact on adjusting items is calculated based upon the tax laws and statutory tax rates applicable in the tax jurisdiction of the underlying non-GAAP adjustments.

The Company has revised the current and prior period presentation of the adjusting items affecting comparability. The revised presentation shows each reconciling item on a gross basis, with the cumulative tax impact on a separate line. In prior periods, each adjusting item was presented on a net of tax basis.

### *Adjusted Net Income and Adjusted EBITDA, Adjusting for Certain Items Affecting Comparability*

Adjusted Net Income represents GAAP net income as reported in the Condensed Consolidated Statements of Income adjusted for items that, in management's judgment, significantly affect the assessment of earnings results between periods as outlined above. This information is provided in order to allow investors to make meaningful comparisons of the Company's earnings performance between periods and to view the Company's business from the same perspective as Company management. This measure is also used as a component of the Board of Director's measurement of the Company's performance for incentive compensation purposes and is the basis of calculating the adjusted EPS metric outlined above.

Adjusted EBITDA represents adjusted net income before interest expense, interest income, income tax expense, depreciation and amortization expense, and non-cash stock-based compensation expense. Adjusted EBITDA is a performance measure commonly used by management to assess operating performance, and the Company believes it

is commonly reported and widely used by investors and other interested parties as a measure of a company's operating performance between periods.



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The following table reconciles the Company's net income as presented in the Condensed Consolidated Statements of Income, the relevant GAAP measure, to Adjusted net income and Adjusted EBITDA for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(unaudited in thousands)			
Net income per GAAP	\$ 15,648	\$ 31,362	\$ 12,302	\$ 49,214
Product recall costs <sup>(1)</sup>	15,229		15,229	
Foreign currency (gain) loss on re-measurement of intercompany notes <sup>(2)</sup>	(78)	(2,529)	(6,621)	8,342
Mark-to-market adjustments <sup>(3)</sup>	(1,733)	(1,977)	2,970	(2,395)
Acquisition, integration, and related costs <sup>(4)</sup>	4,795	506	46,089	1,989
Restructuring/facility consolidation costs <sup>(5)</sup>	3,121	135	7,024	350
Less: Taxes on adjusting items	(5,798)	1,282	(20,228)	(2,918)
Adjusted net income	\$ 31,184	\$ 28,779	\$ 56,765	\$ 54,582
Interest expense	31,538	11,372	57,206	23,064
Interest income	(642)	(194)	(3,461)	(1,963)
Income taxes	6,527	16,425	5,093	24,374
Depreciation and amortization <sup>(6)</sup>	72,687	31,034	130,324	61,682
Stock-based compensation expense <sup>(7)</sup>	7,838	4,514	13,992	10,463
Add: Taxes on adjusting items	5,798	(1,282)	20,228	2,918
Adjusted EBITDA	\$ 154,930	\$ 90,648	\$ 280,147	\$ 175,120

	Location in Condensed Consolidated Statements of Income	Three Months Ended June 30,		Six Months Ended June 30,	
		2016	2015	2016	2015
		(unaudited in thousands)			
(1) Product recall costs	Net sales	\$ 9,941	\$	\$ 9,941	\$
	Cost of sales	\$ 5,288	\$	\$ 5,288	\$
(2) Foreign currency (gain) loss on re-measurement of intercompany notes	(Gain) loss on foreign currency exchange	\$ (78)	\$ (2,529)	\$ (6,621)	\$ 8,342

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(3) Mark-to-market adjustments	Other (income) expense, net	\$ (1,733)	\$ (1,977)	\$ 2,970	\$ (2,395)
(4) Acquisition, integration and related costs	General and administrative	\$ 4,571	\$ 565	\$ 37,573	\$ 1,259
	Cost of sales	\$ 180	\$ (59)	\$ 8,416	\$ 657
	Other (income) expense, net	\$ 44	\$	\$ 100	\$ 30
	Selling and distribution	\$	\$	\$	\$ 43
(5) Restructuring/facility consolidation costs	Other operating expense, net	\$ 2,447	\$ 135	\$ 4,083	\$ 350
	Cost of sales	\$ 674	\$	\$ 2,941	\$
(6) Depreciation and amortization included in restructuring/facility consolidation costs	Cost of sales	\$ 674	\$	\$ 2,502	\$
	General and administrative	\$	\$	\$	\$ 85
(7) Stock-based compensation expense included in acquisition, integration, and related costs	General and administrative	\$ 309	\$	\$ 332	\$

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### **Other Commitments and Contingencies**

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

certain lease obligations, and

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

See Note 19 to our Condensed Consolidated Financial Statements in Part I Item 1 of this Form 10-Q and Note 19 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 for more information about our commitments and contingent obligations.

### **Recent Accounting Pronouncements**

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

### **Critical Accounting Policies**

A description of the Company's critical accounting policies is contained in our Annual Report on Form 10-K for the year ended December 31, 2015. There were no material changes to our critical accounting policies in the six months ended June 30, 2016.

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

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

### **Forward Looking Statements**

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

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

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Quarterly Report on Form 10-Q and other public statements we make. Such factors include, but are not limited to: the outcome of litigation and regulatory proceedings to which we may be a party; the impact of product recalls; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; our ability to obtain suitable pricing for our products; development of new products and services; our level of indebtedness; the availability of financing on commercially reasonable terms; cost of borrowing; our ability to maintain and improve cost efficiency of operations; changes in foreign currency exchange rates; interest rates; raw material and commodity costs; changes in economic conditions; political conditions; reliance on third parties for manufacturing of products and provision of services; general U.S. and global economic conditions; the financial condition of our customers and suppliers; consolidations in the retail grocery and foodservice industries; our ability to continue to make acquisitions in accordance with our business strategy or effectively manage the growth from acquisitions; and other risks that are set forth in the Risk Factors section, the Legal Proceedings section, the Management's Discussion and Analysis of Financial Condition and Results of Operations section, and other sections of this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2015, and from time to time in our filings with the Securities and Exchange Commission.

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**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk****Interest Rate Fluctuations**

As of June 30, 2016, the Company was party to the Revolving Credit Facility with an aggregate commitment of \$900 million, with an interest rate based on the Company's consolidated leverage ratio, and determined by either LIBOR plus a margin ranging from 1.25% to 3.00%, or a base rate (as defined in the Amended and Restated Credit Agreement) plus a margin ranging from 0.25% to 2.00%. The Company was also party to Term Loan A, Term Loan A-1, and Term Loan A-2. Interest rates for the Term Loans are based on the Company's consolidated leverage ratio and determined as follows: by either LIBOR plus a margin ranging from 1.25% to 3.00%, or a base rate (as defined in the Amended and Restated Credit Agreement) plus a margin ranging from 0.25% to 2.00%.

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. The borrowing cost on the swapped principal will range from 2.11% to 3.86% during the life of the swap agreement based on the credit spreads under the Amended and Restated Credit Agreement.

We do not hold any derivative financial instruments, other than the interest rate swap agreements discussed above, which could expose us to significant interest rate market risk as of June 30, 2016. Our exposure to market risk for changes in interest rates relates primarily to the increase in the amount of interest expense we expect to pay with respect to our Amended and Restated Credit Agreement, which is tied to variable market rates. Based on our outstanding debt balance of \$1,766.3 million under the Amended and Restated Credit Agreement at June 30, 2016, and excluding the impact of the \$500 million in interest rate swap agreements that are not effective until 2017, each 1% rise in our interest rate would increase our annual interest expense by approximately \$17.7 million.

**Input Costs**

The costs of raw materials, packaging materials, fuel, and energy have varied widely in recent years and future changes in such costs may cause our results of operations and our operating margins to fluctuate significantly. When comparing the second quarter of 2016 to the second quarter of 2015, price increases in corn sweeteners and fruits were offset by price decreases in soybean oil, dairy, coffee, plastics, and diesel. We expect the volatile nature of these costs to continue with an overall long-term upward trend.

We manage the cost of certain raw materials by entering into forward purchase contracts. Forward purchase contracts help us manage our business and reduce cost volatility. Some of these forward purchase contracts qualify as derivatives; however, the majority of commodity forward contracts are not derivatives. Those that are derivatives 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 Income.

We use a significant volume of fruits, vegetables, and nuts in our operations as raw materials. Certain of these inputs are purchased under seasonal grower contracts with a variety of growers strategically located to supply our production facilities. Bad weather or disease in a particular growing area can damage or destroy the crop in that area. If we are unable to buy the inputs from local suppliers, we would purchase them from more distant locations, including other locations within the United States, Mexico, or India, thereby increasing our production costs. When entering into

contracts for input costs, the Company generally seeks contract lengths between nine and twelve months.

Changes in the prices of our products may lag behind changes in the costs of our products. Competitive pressures also may limit our ability to quickly raise prices in response to increased raw materials, packaging, fuel, and energy costs. Accordingly, if we are unable to increase our prices to offset increasing costs, our operating profits and margins could be materially affected. In addition, in instances of declining input costs, customers may seek price reductions in situations where we are locked into pricing at higher costs.

### **Fluctuations in Foreign Currencies**

The Company is exposed to fluctuations in foreign currency as a result of our Canadian and Italian subsidiaries, where the functional currency is the Canadian dollar and Euro, respectively. Items that give rise to foreign exchange transaction gains and losses primarily include foreign denominated intercompany loans and input costs. The foreign exchange gain or loss on intercompany loans and foreign denominated working capital balances are recorded in the (Gain) loss on foreign currency exchange line of the Condensed Consolidated Statements of Income where the Company recognized a gain of \$4.9 million and a loss of \$9.0 million for the six months ended June 30, 2016 and 2015, respectively.

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A significant portion of the Company's Canadian operations purchase their inputs and packaging materials in U.S. dollars, resulting in higher costs when the U.S. dollar strengthens as compared to the Canadian dollar. The Company estimates the impact on input costs (and Cost of sales) to be approximately \$2 million for each one cent change in the exchange rate between the U.S. and Canadian dollar.

Also impacted by foreign exchange is the translation of the Company's Canadian and Italian financial statements. For the six months ended June 30, 2016 and 2015, the Company recognized translation gains of \$28.9 million and losses of \$20.3 million, respectively, as a component of Accumulated other comprehensive loss.

The Company enters into foreign currency contracts due to the exposure to Canadian/U.S. dollar currency fluctuations on cross border transactions. The Company does not apply hedge accounting to these contracts and records them at fair value on the Condensed Consolidated Balance Sheets. The contracts are entered into for the purchase of U.S. dollar denominated raw materials by our Canadian subsidiaries. As of June 30, 2016, the Company had \$57.3 million of U.S. dollar foreign currency contracts outstanding.

**Item 4. Controls and Procedures**

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

As of June 30, 2016, the Company's Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), together with management, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures are effective. We have excluded the Private Brands Business from our evaluation of disclosure controls and procedures as of June 30, 2016 to the extent subsumed by internal control over financial reporting because the Private Brands Business was acquired by the Company on February 1, 2016. This exclusion is in accordance with the general guidance from the Staff of the Securities and Exchange Commission that an assessment of a recently acquired business may be omitted from the scope of management's assessment for one year following the acquisition. We are in the process of implementing the Company's internal control over financial reporting at the Private Brands Business. The net sales and total assets of the Private Brands Business represented approximately 45.8% and 45.6%, respectively, of the Condensed Consolidated Financial Statement amounts as of and for the six months ended June 30, 2016.

There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2016 that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.





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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

TreeHouse Foods, Inc.

Oak Brook, Illinois

We have reviewed the accompanying condensed consolidated balance sheet of TreeHouse Foods, Inc. and subsidiaries (the Company) as of June 30, 2016, and the related condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2016 and 2015, and of cash flows for the six-month periods then ended. This interim financial information is the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of TreeHouse Foods, Inc. and subsidiaries as of December 31, 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 18, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2015 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

*/s/ DELOITTE & TOUCHE LLP*

Chicago, Illinois

August 4, 2016

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**Part II Other Information**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

Information regarding risk factors appears in Management's Discussion and Analysis of Financial Condition and Results of Operations Information Related to Forward-Looking Statements, in Part I Item 2 of this Form 10-Q and in Part I Item 1A of the TreeHouse Foods, Inc. Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes from the risk factors previously disclosed in the TreeHouse Foods, Inc. Annual Report on Form 10-K for the year ended December 31, 2015.

**Item 5. Other Information**

None

**Item 6. Exhibits**

- 12.1 Computation of Ratio of Earnings to Fixed Changes.
- 15.1 Awareness Letter from Deloitte & Touche LLP regarding unaudited financial information.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.



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**SIGNATURES**

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

TREEHOUSE FOODS, INC.

/s/ Dennis F. Riordan

Dennis F. Riordan

*Executive Vice President and Chief Financial Officer*

August 4, 2016