

TreeHouse Foods, Inc.
Form 10-K
February 16, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2009
- 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.)

**Two Westbrook Corporate Center, Suite 1070
Westchester, IL**

(Address of principal executive offices)

60154

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.01 par value

New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the Registrant's common stock held by non-affiliates as of June 30, 2009, based on the \$28.77 per share closing price on the New York Stock Exchange on such date, was approximately \$897.7 million. Shares of common stock held by executive officers and directors of the registrant have been excluded from this calculation because such persons may be deemed to be affiliates.

The number of shares of the registrant's common stock outstanding as of January 29, 2010 was 32,000,919.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on April 29, 2010 are incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements and information in this Form 10-K may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words believe, estimate, project, except, anticipate, plan, intend, should, would, could or other similar expressions are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. These forward-looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available. 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 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. 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 and raw material and commodity costs; changes in economic conditions; political conditions; reliance on third parties for manufacturing of products and provision of services; delays in the consummation, or the failure to consummate, the proposed Sturm Foods, Inc. acquisition; 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 described Part I, Item 1A Risk Factors and our other reports filed from time to time with the Securities and Exchange Commission (the SEC).

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

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PART I

Item 1. *Business*

References herein to we, us, our, Company and TreeHouse refers to TreeHouse Foods, Inc. and its consolidated subsidiaries unless the context specifically states or implies otherwise.

TreeHouse is a Delaware corporation incorporated on January 25, 2005 by Dean Foods Company to accomplish a spin-off of certain specialty businesses to its shareholders which was completed on June 27, 2005. Since the Company began operating as an independent entity, it has expanded its product offerings through a number of acquisitions. On April 24, 2006, the Company acquired the private label soup and infant feeding business from Del Monte Corporation (Soup and Infant Feeding). On May 31, 2007, the Company acquired VDW Acquisition, Ltd (San Antonio Farms) a manufacturer of Mexican sauces. On October 15, 2007, the Company acquired the assets of E.D. Smith Income Fund (E.D. Smith), a manufacturer of salad dressings, jams and various sauces.

We are a food manufacturer servicing primarily the retail grocery and foodservice distribution channels. Our products include non-dairy powdered coffee creamers; private label soups, salad dressings and sauces; Mexican sauces; jams and pie fillings; pickles and related products; infant feeding products; aseptic sauces; refrigerated salad dressings and liquid non-dairy creamer. We manufacture and sell the following:

private label products to retailers, such as supermarkets and mass merchandisers, for resale under the retailers own or controlled labels,

private label and branded products to the foodservice industry, including foodservice distributors and national restaurant operators,

branded products under our own proprietary brands, primarily on a regional basis to retailers, and

products to our industrial customer base, for repackaging in portion control packages and for use as ingredients by other food manufacturers.

Effective January 1, 2008, we realigned the manner in which our business is managed and now focus on operating results based on channels of distribution, which resulted in a change to our operating and reportable segments. Previously, we managed our business based on product categories. Our change in operating and reportable segments from product categories to channel of distribution is consistent with management's long-term growth strategy and was necessary due to the acquisitions that occurred during 2007. The change in operating and reportable segments will permit the Company to integrate future acquisitions more efficiently and provide our investors with greater comparability to our peer group, as many of them also present results based on channels of distribution.

We discuss the following segments in Management's Discussion and Analysis of Financial Condition and Results of Operations : North American Retail Grocery, Food Away From Home, and Industrial and Export. The key performance indicators of our segments are net sales dollars, gross profit and direct operating income, which is gross profit less the cost of transporting products to customer locations (referred to in the tables below as freight out), commissions paid to independent sales brokers, and direct selling and marketing expenses.

Our North American Retail Grocery segment sells branded and private label products to customers within the United States and Canada. These products include non-dairy powdered creamers; condensed and ready to serve soups, broths

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and gravies; infant feeding products; salad dressings and sauces; pickles, peppers and relishes; Mexican sauces; jams and pie fillings; aseptic products and liquid non-dairy creamer.

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

Our Industrial and Export segment includes the Company's co-pack soup and infant feeding business; non-dairy powdered creamer sales to industrial customers for use in industrial applications, including products

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for repackaging in portion control packages and for use as ingredients by other food manufacturers; pickles; Mexican sauces; and refrigerated dressings. Export sales are primarily to industrial customers.

See Note 21 to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations for information related to the Company's business segments.

We operate our business as Bay Valley Foods, LLC (Bay Valley) in the United States and E.D. Smith Foods, Ltd (E.D. Smith) in Canada. Bay Valley is a Delaware limited liability company, a wholly owned subsidiary of TreeHouse Foods, Inc. and holds all of the real estate and operating assets related to our business. E.D. Smith is a wholly owned subsidiary of Bay Valley.

Recent Developments

On December 20, 2009, TreeHouse entered into a definitive Purchase Agreement to acquire all of the issued and outstanding common stock of Sturm Foods, Inc. (Sturm) for a purchase price of approximately \$660 million in cash (subject to adjustment). We believe Sturm is the leading manufacturer of private label sugar free drink mixes and hot cereals in the United States. The acquisition of Sturm will add two large categories to our dry grocery portfolio. TreeHouse intends to finance the transaction through a combination of approximately \$400 million in new debt issuance, approximately \$100 million in equity stock issuance, and the balance funded from borrowings under TreeHouse's existing revolving credit facility.

The closing of the transaction is subject to customary closing conditions and is expected to close in the first quarter of 2010. There can be no assurances, however, that the parties will satisfy the closing conditions and consummate the transaction within the expected timeframe, or at all.

Our Products

Financial information about our North American Retail Grocery, Food Away From Home, and Industrial and Export segments can be found under Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table sets forth percentages of consolidated net sales contributed by classes of similar products, for the years ended December 31, 2009, 2008, and 2007:

Products

	2009		Year Ended December 31, 2008		2007	
	Net Sales	%	Net Sales	%	Net Sales	%
	(Dollars in thousands)					
Soup and infant feeding	\$ 344,181	22.8%	\$ 336,519	22.4%	\$ 322,223	27.8%
Non-dairy powdered creamer	323,926	21.4	351,838	23.4	299,191	25.9
Pickles	316,976	21.0	325,579	21.7	329,686	28.5
Salad dressings	186,778	12.3	156,884	10.5	29,295	2.5
Jams and other sauces	155,771	10.3	153,927	10.3	29,973	2.6
Aseptic products	84,493	5.6	83,198	5.5	80,784	7.0
Mexican sauces	64,520	4.3	52,718	3.5	25,862	2.2

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Refrigerated products	35,008	2.3	39,987	2.7	40,888	3.5
Total	\$ 1,511,653	100.0%	\$ 1,500,650	100.0%	\$ 1,157,902	100.0%

Soup and Infant Feeding Soup, broth and gravy are produced and packaged in cans of various sizes, from single serve to larger sized cans. We primarily produce private label products sold to supermarkets and mass merchandisers. We also produce infant feeding products, primarily under the *Nature's Goodness*® brand, and we co-pack organic infant feeding products for a branded baby food company. Infant feeding production takes place in the same factory that produces most of our soup, broth and gravy products. In 2009, the

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majority of the soup and infant feeding sales were to the retail channel and represented 22.8% of our consolidated net sales, with the majority of the sales coming from soup.

Non-Dairy Powdered Creamer Non-dairy powdered creamer is used as coffee creamer or whitener and as an ingredient in baking, hot and cold beverages, gravy mixes and similar products. Product offerings in this category include private label products packaged for grocery retailers, such as supermarkets and mass merchandisers, foodservice products for use in coffee service and other industrial applications, such as portion control, repackaging and ingredient use by other food manufacturers. We believe we are the largest supplier of non-dairy powdered creamer in the United States. Non-dairy powdered creamer represented 21.4% of our consolidated net sales for the year ended December 31, 2009.

Pickles We produce pickles and a variety of related products, including peppers, pickled vegetables, sauces and syrups. We produce private label and regional branded offerings in the pickles category. These products are sold to supermarkets, mass merchandisers, foodservice and industrial customers. We believe we are the largest producer of pickles with in the United States. Pickles and related products represented approximately 21.0% of our consolidated net sales in 2009.

Salad Dressings We produce both pourable and spoonable salad dressings. Our salad dressings are sold primarily to supermarkets and mass merchandisers throughout the United States and Canada, and encompass many flavor varieties. We believe we are the largest supplier of private label salad dressings in both the United States and Canada. Salad dressings represented 12.3% of our consolidated net sales in 2009.

Jams and Other Sauces We produce jams, pie fillings and other sauces that we sell to supermarkets, mass merchandisers and foodservice customers in the United States and Canada. Jams and other sauces represented 10.3% of our consolidated net sales in 2009.

Aseptic Products Aseptic products are processed under heat and pressure in a sterile production and packaging environment, creating a product that does not require refrigeration prior to use. Our principal aseptic products are cheese sauces and puddings. These products are sold primarily to foodservice customers in cans and flexible packages. Aseptic products represented 5.6% of our consolidated net sales in 2009.

Mexican Sauces We produce a wide variety of Mexican sauces, including salsa, picante sauce, cheese dip, enchilada sauce and taco sauce that we sell to supermarkets, mass merchandisers and foodservice customers in the United States and Canada, as well as to industrial markets. Mexican sauces represented approximately 4.3% of our consolidated net sales in 2009.

Refrigerated Products We produce refrigerated salad dressings and liquid non-dairy creamer, which are sold to retail and foodservice customers. Refrigerated products represented approximately 2.3% of our consolidated net sales in 2009.

See Note 21 to the Consolidated Financial Statements for financial information by segment and sales by major products.

Customers and Distribution

We sell our products through various distribution channels, including retail grocery, foodservice distributors and industrial and export, including food manufacturers and repackagers of foodservice products. We have an internal sales force that manages customer relationships and our broker network, which is used for sales to retail and foodservice accounts. Industrial food products are generally sold directly to customers without the use of a broker.

Most of our customers, including long-standing customers, purchase products from us either by purchase order or pursuant to contracts that generally are terminable at will. We have many customer supply arrangements that are not evidenced by written agreements.

Products are shipped from our production facilities directly to customers or to our distribution centers, where products are consolidated for shipment to customers. We believe this consolidation of products enables us to improve customer service by offering our customers a single order, invoice and shipment.

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We sell our products to a diverse customer base, including many of the leading grocery retailers and foodservice operators in the United States and Canada, and a variety of customers that purchase bulk products for industrial food applications. We currently supply more than 250 food retail customers in North America, including 47 of the 50 largest food retailers, and more than 450 foodservice customers, including 74 of the 100 largest restaurant chains and the 200 largest food distributors. A relatively limited number of customers account for a large percentage of our consolidated net sales. For the year ended December 31, 2009, our ten largest customers accounted for approximately 47% of the Company's consolidated net sales. For the years ended December 31, 2009, 2008 and 2007, our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 14.4%, 15.1% and 13.8%, respectively, of our consolidated net sales. No other customer accounted for 10% or more of the Company's consolidated net sales. Total trade receivables with Wal-Mart Stores, Inc. and affiliates represented 13.3% and 14.5% of our total trade receivables as of December, 31, 2009 and 2008, respectively.

Backlog

Our products are generally shipped from inventory upon receipt of a customer order. In certain cases, we produce to order. Sales order backlog is not material to our business.

Competition

We have several competitors in each of our segments. For sales of private label products to retailers, the principal competitive factors are price, product quality and quality of service. For sales of products to foodservice, industrial and export customers, the principal competitive factors are product quality and specifications, reliability of service and price. We believe we are the largest manufacturer of non-dairy powdered creamer and pickles in the United States and largest manufacturer of private label salad dressings in the United States and Canada based on sales volume.

Competition to obtain shelf space for our branded products with retailers generally is based on the expected or historical performance of our product sales relative to our competitors. The principal competitive factors for sales of our branded products to consumers are brand recognition and loyalty, product quality, promotion and price. Most of our branded competitors have significantly greater resources and brand recognition than we do.

The consolidation trend is continuing in the retail grocery and foodservice industries, and mass merchandisers are gaining market share. As our customer base continues to consolidate, we expect competition to intensify as we compete for the business of fewer, large customers.

We believe our strategies for competing in each of our business segments, which include superior product quality, effective cost control programs, an efficient supply chain, successful new products and price, allow us to compete effectively.

Patents and Trademarks

We own a number of registered trademarks. While we consider our trademarks to be valuable assets, we do not consider any trademark to be of such material importance that its absence would cause a material disruption of our business. No trademark is material to any one segment.

Brand names sold within the North American Retail Grocery segment include the following pickle brands, *Farman*®, *Nalley*®, *Peter Piper*® and *Steinfeld*®. Also sold are brands related to sauces and syrups, *Bennett*®, *Hoffman House*®, *Roddenberry's Northwood*® and *San Antonio Farms*®. Infant feeding products are sold under the *Nature's Goodness*® brand, while our non-dairy powdered creamer is sold under our proprietary *Cremora*® brand. Our refrigerated products are sold under the *Mocha Mix*® and *Second Nature*® brand names, and our jams and other sauces

are sold under the *E.D. Smith*[®] and *Habitant*[®] brand names.

Trade names used in our Food Away From Home segment include *Schwartz*[®] and *Saucemaker*[®].

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Seasonality

In general, total demand for our products does not vary significantly by quarter. However, sales of soup products have a higher percentage of sales in the fourth quarter and lower sales in the second quarter while dressings have higher sales in the second quarter. Pickles tend to have higher sales in the second quarter and non-dairy powdered creamer tends to have higher sales in the first and fourth quarters.

Foreign Operations and Geographic Information

Foreign sales information is set forth in Note 21 to the Consolidated Financial Statements.

Raw Materials and Supplies

Our raw materials consist of ingredients and packaging materials. Principle ingredients used in our operations include processed vegetables and meats, soybean oil, coconut oil, casein, cheese, corn syrup, cucumbers, peppers and fruit. These ingredients generally are purchased under supply contracts, and we occasionally engage in forward buying, when we determine such buying to be to our advantage. We believe these ingredients to be generally available from a number of suppliers. The cost of raw materials used in our products may fluctuate due to weather conditions, regulations, industry and general U.S. and global economic conditions, fuel prices, energy costs, labor disputes, transportation delays or other unforeseen circumstances. The most important packaging materials and supplies used in our operations are glass, plastic containers, corrugated containers, metal closures and metal cans, operating supplies and energy. Most packaging materials are purchased under long-term supply contracts. We believe these packaging materials to be generally available from a number of suppliers. Volatility in the cost of our raw materials and supplies can adversely affect our performance, as price changes often lag behind changes in costs and we are not always able to adjust our pricing to reflect changes in raw material and supply costs.

For additional discussion of the risks associated with the raw materials used in our operations, see Known Trends and Uncertainties Prices of Raw Materials.

Working Capital

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

Research and Development

Our research facilities include a Research and Development Center in Pecatonica, Illinois, which focuses on the development of aseptic and powdered creamer products. Product development work for aseptic products is also carried out at our production facility in Dixon, Illinois. Research and development for our pickle products is carried out at our production facility in Green Bay, Wisconsin. We conduct research and development activities for our soup and infant feeding products at our production facility in Pittsburgh, Pennsylvania. New formulations for salad dressings are created at our Seaforth, Canada location and new sauces and fruit based products are developed at our Winona, Canada facility. In addition, sample preparation, plant trials, ingredient approval and other quality control

procedures are conducted at all our manufacturing facilities. Research and development expense totaled \$8.3 million, \$6.9 million, and \$4.8 million in 2009, 2008, and 2007, respectively, and is included in the General and administrative line of the Consolidated Statements of Income.

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Employees

As of December 31, 2009, our work force consisted of approximately 3,100 full-time employees in the United States and Canada.

Available Information

Our fiscal year ends on December 31. We furnish our stockholders with annual reports on Form 10-K containing audited financial reports. As a public company, we regularly file reports and proxy statements with the Securities and Exchange Commission (SEC). These reports are required by the Securities Exchange Act of 1934 and include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statements on Schedule 14A. Copies of any materials the Company files with the SEC can be obtained free of charge through the SEC s website at <http://www.sec.gov>, at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC s Office of Investor Education and Assistance at 1-800-732-0330. We make our SEC filings available on our own internet site as soon as reasonably practicable after they have been filed with the SEC. Our internet address is <http://www.treehousefoods.com>. The information on our website is not incorporated by reference into this annual report on Form 10-K.

Regulatory Environment and Environmental Compliance

The conduct of our businesses, and the production, distribution, sale, labeling, safety, transportation and use of our products, are subject to various laws and regulations administered by federal, state, and local governmental agencies in the United States, as well as to foreign laws and regulations administered by government entities and agencies in markets where we operate. It is our policy to abide by the laws and regulations that apply to our businesses.

We are subject to national and local environmental laws in the United States and in foreign countries in which we do business including laws relating to water consumption and treatment, air quality, waste, handling and disposal and other regulations intended to protect public health and the environment. We are committed to meeting all applicable environmental compliance requirements.

The cost of compliance with U.S. and foreign laws does not have and are not expected to have, a material financial impact on our capital expenditures, earnings or competitive position.

Executive Officers

Sam K. Reed	63	Chairman of the Board of Directors. Mr. Reed has served as the Chief Executive Officer since January 2005.
David F. Vermylen	59	President and Chief Operating Officer and has served in that position since January 2005.
Dennis F. Riordan	52	Senior Vice President and Chief Financial Officer since January 2006.
Thomas E. O Neill	55	General Counsel, Chief Administrative Officer and a Senior Vice President and has served in that position since January 2005.
Harry J. Walsh	54	Senior Vice President and has served in that position since July 2008. Previously Senior Vice President of Operations from January 2005 through July 2008.

Item 1A. Risk Factors

In addition to the factors discussed elsewhere in this Report, the following risks and uncertainties could materially and adversely affect the Company's business, financial condition, results of operations and cash flows. Additional risks and uncertainties not presently known to the Company also may impair the Company's business operations and financial condition.

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Disruptions in the financial markets could affect our ability to fund acquisitions or to renew our outstanding credit agreements upon expiration at our current favorable terms.

As of December 31, 2009, we had \$402.5 million of outstanding indebtedness which included \$298.2 million under our \$600 million revolving credit agreement, which expires August 31, 2011, and \$100 million in senior notes from a private placement, which expires on September 30, 2013. The inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our debt obligations on commercially reasonable terms, would have a material adverse effect on our business, financial condition, and results of operations. In addition, the inability to access additional borrowing at commercially reasonable terms could affect our ability to pursue additional acquisitions. U.S. credit markets have experienced significant dislocations and liquidity disruptions which have caused credit spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in debt markets, making financial terms for borrowers less attractive, and in certain cases have resulted in the unavailability of certain types of debt refinancing. Continued uncertainty in the credit markets may negatively impact our ability to access additional debt financing or to refinance existing indebtedness on favorable terms, or at all. Events affecting the credit markets have also had an adverse effect on other financial markets in the U.S., which may make it more difficult or costly for us to raise capital through the issuance of common stock or other equity securities. Our business could also be negatively impacted if our suppliers or customers experience disruptions resulting from tighter capital and credit markets, or a slowdown in the general economy. Any of these risks could impair our ability to fund our operations or limit our ability to expand our business and could possibly increase our interest expense, which could have a material adverse effect on our financial results.

Increases in interest rates may negatively affect earnings.

We had outstanding variable rate debt of \$298.2 million with an average interest rate of 0.91% as of December 31, 2009, which accounts for approximately 74.1% of our total debt outstanding at December 31, 2009. In October, 2008, we entered into an interest rate swap for two years, with an effective date of November 19, 2008, at a fixed rate of 2.9% on \$200 million of our variable rate debt which effectively results in an average interest rate of 2.75% on our variable rate debt at December 31, 2009. However, because we have a significant portion of variable rate debt, we may still experience interest rate volatility. Increases in interest rates on our variable rate debt could materially affect our earnings.

Fluctuations in foreign currencies may adversely affect earnings.

The Company is exposed to fluctuations in foreign currency exchange rates primarily related to raw material purchases. We are also exposed to fluctuations in the value of our foreign currency investment in our Canadian subsidiary, E.D. Smith.

The Canadian assets, liabilities, revenues and expenses are translated into U.S. dollars at applicable exchange rates. Accordingly, we are exposed to volatility in the translation of foreign currency earnings due to fluctuations in the value of the Canadian dollar, which may negatively impact the Company's results of operations and financial position.

As we are dependent upon a limited number of customers, the loss of a significant customer, or consolidation of our customer base, could adversely affect our operating results.

A limited number of customers represent a large percentage of our consolidated net sales. Our operating results are contingent on our ability to maintain our sales to these customers. The competition to supply products to these high volume customers is very high. We expect that a significant portion of our net sales will continue to be derived from a small number of customers. For the year ended December 31, 2009, our ten largest customers accounted for approximately 47% of the Company's consolidated net sales. These customers typically do not enter into written

contracts, and the contracts that they do enter into generally are terminable at will. Our customers make purchase decisions based on a combination of price, product quality and customer service performance.

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If our product sales to one or more of these customers are reduced, this reduction may have a material adverse effect on our business, results of operations and financial condition.

Increases in input costs, such as ingredients, packaging materials and fuel costs, could adversely affect earnings.

The costs of ingredients, as well as packaging materials and fuel, have varied widely in recent years and future changes in such costs may cause our results of operations and our operating margins to fluctuate significantly. Many of the raw materials that we use in our products rose to unusually high levels during 2007 and 2008, including processed vegetables and meats, soybean oil, casein, cheese and packaging materials. During 2009, certain input costs have decreased from the high levels experienced in 2008, but continue to remain at levels in excess of historical costs. Other input costs such as metal cans, lids and caps continue to rise even though the underlying commodity cost has decreased. In addition, fuel costs, which represent the most important factor affecting utility costs at our production facilities and our transportation costs, rose to unusually high levels in the middle of 2008, but have decreased proportionately to the general reduction in overall economic activity in 2009. We expect the volatile nature of these costs to continue, with an overall slightly upward trend.

We manage the impact of increases in the costs of raw materials, wherever possible, by locking in prices on quantities required to meet our production requirements. In addition, we attempt to offset the effect of such increases by raising prices to our customers. However, changes in the prices of our products may lag behind changes in the costs of our materials. Competitive pressures also may limit our ability to quickly raise prices in response to increased raw materials, packaging and fuel costs. Accordingly, if we are unable to increase our prices to offset increasing raw material, packaging and fuel costs, our operating profits and margins could be materially adversely affected. In addition, in instances of declining input costs, customers may be looking for price reductions in situations where we have locked into purchases at higher costs.

Our private label and regionally branded products may not be able to compete successfully with nationally branded products.

For sales of private label products to retailers, the principal competitive factors are price, product quality and quality of service. For sales of private label products to consumers, the principal competitive factors are price and product quality. In many cases, competitors with nationally branded products have a competitive advantage over private label products primarily due to name recognition. In addition, when branded competitors focus on price and promotion, the environment for private label producers becomes more challenging because the price difference between private label products and branded products can become less significant.

Competition to obtain shelf space for our branded products with retailers is primarily based on the expected or historical performance of our product sales relative to our competitors. The principal competitive factors for sales of our branded products to consumers are brand recognition and loyalty, product quality, promotion and price. Most of our branded competitors have significantly greater resources and brand recognition than we do.

Competitive pressures or other factors could cause us to lose market share, which may require us to lower prices, increase marketing expenditures, or increase the use of discounting or promotional programs, each of which would adversely affect our margins and could result in a decrease in our operating results and profitability.

We operate in the highly competitive food industry.

We face competition across our product lines from other companies which have varying abilities to withstand changes in market conditions. Some of our competitors have substantial financial, marketing and other resources, and

competition with them in our various business segments and product lines could cause us to reduce prices, increase capital, marketing or other expenditures, or lose category share, which could have a

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material adverse effect on our business and financial results. Category share and growth could also be adversely impacted if we are not successful in introducing new products.

We may be unsuccessful in our future acquisition endeavors, if any, which may have an adverse effect on our business.

Consistent with our stated strategy, our future growth depends, in large part, on our acquisition of additional food manufacturing businesses, products or processes. As a result, we intend to engage in acquisition activity, including without limitation our pending acquisition of Sturm. We may be unable to identify suitable targets, opportunistic or otherwise, for acquisition or make acquisitions at favorable prices. If we identify a suitable acquisition candidate, our ability to successfully implement the acquisition would depend on a variety of factors, including our ability to obtain financing on acceptable terms.

Acquisitions, including the pending acquisition of Sturm, involve risks, including those associated with integrating the operations, financial reporting, disparate technologies and personnel of acquired companies; managing geographically dispersed operations; the diversion of management's attention from other business concerns; the inherent risks in entering markets or lines of business in which we have either limited or no direct experience; unknown risks; and the potential loss of key employees, customers and strategic partners of acquired companies. We may not successfully integrate businesses or technologies we acquire in the future and may not achieve anticipated revenue and cost benefits. Acquisitions may not be accretive to our earnings and may negatively impact our results of operations as a result of, among other things, the incurrence of debt, one time write-offs of goodwill and amortization expenses of other intangible assets. In addition, future acquisitions could result in dilutive issuances of equity securities.

With respect to our pending acquisition of Sturm, there can be no assurances that the parties will satisfy the closing conditions contained in the purchase agreement and consummate the transaction within our expected timeframe or at all.

See Item 1 Business regarding the definitive agreement to purchase Sturm Foods.

We may be unable to anticipate changes in consumer preferences, which may result in decreased demand for our products.

Our success depends in part on our ability to anticipate the tastes and eating habits of consumers and to offer products that appeal to their preferences. Consumer preferences change from time to time and our failure to anticipate, identify or react to these changes could result in reduced demand for our products, which would adversely affect our operating results and profitability.

We may be subject to product liability claims for misbranded, adulterated, contaminated or spoiled food products.

We sell food products for human consumption, which involve risks such as product contamination or spoilage, misbranding, product tampering, and other adulteration of food products. Consumption of a misbranded, adulterated, contaminated or spoiled product may result in personal illness or injury. We could be subject to claims or lawsuits relating to an actual or alleged illness or injury, and we could incur liabilities that are not insured or that exceed our insurance coverage. Even if product liability claims against us are not successful or fully pursued, these claims could be costly and time consuming and may require management to spend time defending the claims rather than operating our business. A product that has been actually or allegedly misbranded or becomes adulterated could result in: product withdrawals, product recalls, destruction of product inventory, negative publicity, temporary plant closings, and substantial costs of compliance or remediation. Any of these events, including a significant product liability judgment

against us, could result in a loss of confidence in our food products, which could have an adverse effect on our financial condition, results of operations or cash flows.

Table of Contents**New laws or regulations or changes in existing laws or regulations could adversely affect our business.**

The food industry is subject to a variety of federal, state, local and foreign laws and regulations, including those related to food safety, food labeling and environmental matters. Governmental regulations also affect taxes and levies, healthcare costs, energy usage, international trade, immigration and other labor issues, all of which may have a direct or indirect effect on our business or those of our customers or suppliers. Changes in these laws or regulations or the introduction of new laws or regulations could increase the costs of doing business for us or our customers or suppliers or restrict our actions, causing our results of operations to be adversely affected.

Our business could be harmed by strikes or work stoppages by our employees.

Currently, approximately 60% of our full time hourly distribution, production and maintenance employees are covered by collective bargaining agreements with the International Brotherhood of Teamsters, United Food and Commercial Workers Union, or Retail, Wholesale and Department Store Union Central States Council. No agreements expire within one year. If a dispute with one of these unions or the employees they represent were to arise, production interruptions caused by work stoppages could occur. If a strike or work stoppage were to occur, our business, financial condition and results of operations could be adversely affected.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

We currently operate sixteen production facilities, the majority of which are owned except for the facility in City of Industry, California, which is leased under an agreement that expires in September 2016; the Mendota, Illinois facility, which is leased from Del Monte Corporation under an agreement that expires in April 2035; the Springfield, Missouri facility, which is leased from Bell Carter under an agreement that expires in October 31, 2010. We believe that these facilities are suitable for our operations and provide sufficient capacity to meet our requirements for the foreseeable future. The Company closed the Cambridge, Ontario production facility in June 2009. The following chart lists the location and principal products by segment produced at our production facilities at December 31, 2009:

Facility Location	Principal Products	Segment
City of Industry, California	Liquid non-dairy creamer and refrigerated salad dressings	1,2,3
Chicago, Illinois	Refrigerated foodservice pickles	2
Dixon, Illinois	Aseptic cheese sauces, puddings and gravies	2,3
Faison, North Carolina	Pickles, peppers and relish; syrup	1,2,3
Green Bay, Wisconsin	Pickles, peppers, relish and sauces	1,2,3
Mendota, Illinois	Soups, broths, and gravies	1,3
New Hampton, Iowa	Non-dairy powdered creamer	3
North East, Pennsylvania	Salad dressings	1,3
Pecatonica, Illinois	Non-dairy powdered creamer	3
Pittsburgh, Pennsylvania	Soups, broths, and gravies; baby food	1,3
Plymouth, Indiana	Pickles, peppers and relish	1,2,3
San Antonio, Texas	Mexican sauces	1,2,3
Seaforth, Ontario, Canada	Salad dressings, mayonnaise	1,3
Springfield, Missouri	Foodservice pickles	2

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Wayland, Michigan	Non-dairy powdered creamer	1,3
Winona, Ontario, Canada	Jams, pie fillings and specialty sauces	1,2,3

Segments: 1. North American Retail Grocery

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2. Food Away From Home

3. Industrial and Export

Item 3. *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 the Consolidated Financial Statements, annual results of operations or cash flows.

Item 4. *Submission of Matters to a Vote of Security Holders*

There were no matters submitted during the fourth quarter of fiscal year 2009 to a vote of security holders, through the solicitation of proxies or otherwise.

PART II**Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Company's common stock is traded on the New York Stock Exchange under the symbol THS. The high and low sales prices of our common stock as quoted on the New York Stock Exchange for 2009 and 2008 are provided in the table below

	2009		2008	
	High	Low	High	Low
First Quarter	29.41	24.28	24.80	19.24
Second Quarter	29.48	25.25	27.01	21.84
Third Quarter	38.19	28.00	30.29	23.58
Fourth Quarter	40.38	33.00	31.61	20.43

The closing sales price of our common stock on February 4, 2010 as reported on the NYSE, was \$38.38 per share. On February 4, 2010, there were 4,060 shareholders of record of our common stock.

We have not paid any cash dividends on the common stock and currently anticipate that, for the foreseeable future, any earnings will be retained for the development of our business. Accordingly, no dividends are expected to be declared or paid on the common stock. Moreover, our revolving credit facility contains certain restrictions on our ability to pay cash dividends. The declaration of dividends is at the discretion of our Board of Directors.

The Company did not purchase any shares of its common stock in either 2009 or 2008.

Table of Contents**PERFORMANCE GRAPH**

The price information reflected for our common stock in the following performance graph and accompanying table represents the closing sales prices of the common stock for the period from June 28, 2005 through December 31, 2009. The graph and accompanying table compare the cumulative total stockholders' return on our common stock with the cumulative total return of the S&P Small Cap 600 Index, Russell 2000 Index and a Peer Group Index consisting of the following group of companies selected based on the similar nature of their business: Kraft Foods Inc., Sara Lee Corp., General Mills, Inc., Kellogg Co., ConAgra Foods Inc., Archer Daniels Midland Co., H.J. Heinz Company, Campbell Soup Co., McCormick & Co. Inc., The JM Smucker Co., Del Monte Foods Co., Corn Products Int'l., Lancaster Colony Corp., Flowers Foods, Inc., Ralcorp Holdings Inc., The Hain Celestial Group, Inc., Lance, Inc., J&J Snack Foods Corp., B&G Foods, Inc., American Italian Pasta Co., Farmer Bros. Inc. and Peet's Coffee and Tea. The graph assumes an investment of \$100 on June 28, 2005, in each of TreeHouse Foods' common stock, the stocks comprising the S&P Small Cap 600 Index, Russell 2000 Index and the Peer Group Index.

COMPARISON OF CUMULATIVE TOTAL RETURN OF \$100 AMONG TREEHOUSE FOODS, INC., S&P SMALL CAP 600 INDEX, RUSSELL 2000 INDEX AND THE PEER GROUP INDEX

Comparison Of Cumulative Total Return

Company Name / Index	Base Period 6/28/05	Indexed Returns Years Ending				
		12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
TreeHouse Foods, Inc.	100	63.14	105.23	77.54	91.87	131.06
S&P SmallCap 600 Index	100	105.96	121.98	121.62	83.83	105.27
Russell 2000 Index	100	105.59	124.98	123.03	81.46	104.92
Peer Group	100	97.65	122.37	130.22	107.67	126.69

Table of Contents**Equity Compensation Plan Information**

The following table provides information about our common stock that may be issued upon the exercise of options under all of our equity compensation plans as of December 31, 2009:

Plan Category	(a)	(b)	(c)
	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights		Weighted-average Exercise Price of Outstanding Options, Warrants and Rights
Equity compensation plans approved by security holders:			
TreeHouse Foods, Inc. Equity and Incentive Plan	2,400,517	\$ 27.28	124,157
Equity compensation plans not approved by security holders:			
None			
Total	2,400,517	\$ 27.28	124,157

Item 6. Selected Financial Data

The following selected financial data as of and for each of the five years in the period ended December 31, 2009 has been derived from the Consolidated Financial Statements. The selected financial data do not purport to indicate results of operations as of any future date or for any future period. The selected financial data should be read in conjunction with the Consolidated Financial Statements and related Notes. For periods prior to June 27, 2005, all of the historical assets, liabilities, sales, expenses, income, cash flows, products, businesses and activities of our business that we describe in this report as ours are in fact the historical assets, liabilities, sales, expenses, income, cash flows, products, businesses and activities of the businesses transferred to TreeHouse by Dean Foods.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands, except per share data)				
Operating data:					
Net sales	\$ 1,511,653	\$ 1,500,650	\$ 1,157,902	\$ 939,396	\$ 707,731

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Cost of sales	1,185,283	1,208,626	917,611	738,818	560,094
Gross profit	326,370	292,024	240,291	200,578	147,637
Operating expenses:					
Selling and distribution	107,938	115,731	94,636	74,884	60,976
General and administrative	80,466	61,741	53,931	57,914	31,977
Management fee paid to Dean Foods					2,940
Amortization of intangibles	13,381	13,528	7,195	3,268	1,732
Other operating (income) expense, net	(6,224)	13,899	(415)	(19,842)	21,423
Total operating expenses	195,561	204,899	155,347	116,224	119,048

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	2009	Year Ended December 31,			2005
		2008	2007	2006	
		(In thousands, except per share data)			
Operating income	130,809	87,125	84,944	84,354	28,589
Other (income) expense:					
Interest expense	18,430	27,614	22,036	12,985	1,223
Interest income	(45)	(107)	(112)	(665)	(7)
(Gain) loss on foreign currency exchange	(7,387)	13,040	(3,469)		
Other (income) expense, net	(2,263)	7,123	(36)		(66)
Total other expense	8,735	47,670	18,419	12,320	1,150
Income from continuing operations, before income taxes	122,074	39,455	66,525	72,034	27,439
Income taxes	40,760	10,895	24,873	27,333	15,174
Income from continuing operations	81,314	28,560	41,652	44,701	12,265
Income (loss) from discontinued operations, net of tax		(336)	(30)	155	(689)
Net income	\$ 81,314	\$ 28,224	\$ 41,622	\$ 44,856	\$ 11,576
Basic earnings per common share:					
Income from continuing operations	\$ 2.54	\$.91	\$ 1.33	\$ 1.43	\$.40
Income (loss) from discontinued operations		(.01)		.01	(.02)
Net income	\$ 2.54	\$.90	\$ 1.33	\$ 1.44	\$.38
Diluted earnings per common share:					
Income from continuing operations	\$ 2.48	\$.91	\$ 1.33	\$ 1.42	\$.39
Income (loss) from discontinued operations		(.01)		.01	(.02)
Net income	\$ 2.48	\$.90	\$ 1.33	\$ 1.43	\$.37
Weighted average common shares:					
Basic	31,982	31,341	31,203	31,158	30,905
Diluted	32,798	31,469	31,351	31,396	31,108
Other data:					
Balance sheet data (at end of period):					
Total assets	\$ 1,384,428	\$ 1,355,682	\$ 1,455,958	\$ 935,623	\$ 609,697
Long-term debt	401,640	475,233	620,452	239,115	6,144
Other long-term liabilities	31,453	44,563	33,913	26,520	18,906
Deferred income taxes	45,381	27,485	27,517	4,293	9,421

Total stockholders equity	756,229	620,131	629,309	576,249	513,355
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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

We believe we are the largest manufacturer of non-dairy powdered creamer and pickles in the United States, and the largest manufacturer of private label salad dressings in the United States and Canada, based upon total sales volumes. In 2009, based on available industry data, private label products sold in the retail grocery channel in the United States, which compete with branded products on the basis of equivalent quality at a lower price, represented approximately 37% of all pickle products, approximately 55% of all non-dairy powdered creamer, approximately 22% of all salad dressings and approximately 18% of all canned soup.

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We sell our products primarily to the retail grocery and foodservice channels. For the year ended December 31, 2009, sales to the retail grocery and foodservice channels represented 64.2% and 19.4%, respectively, of our consolidated net sales. The remaining 16.4% represented industrial and export sales. A majority of our sales are private label products.

We intend to grow our business profitably through the following strategic initiatives:

Expand Partnerships with Retailers. As grocery retailers become more demanding of their private label food product suppliers, they have come to expect strategic insight, product innovation, customer service and logistical economies of scale similar to those of our branded competitors. To this end, we are continually developing, investing in and expanding our private label food product offerings and capabilities in these areas. In addition to our low cost manufacturing, we have invested in research and development, product and packaging innovation, category management, information technology systems and other capabilities. We believe that these investments enable us to provide a broad and growing array of private label food products that generally meet or exceed the value and quality of branded competitors that have comparable sales, marketing, innovation and category management support. We believe that we are well positioned to expand our market share with grocery retailers given our differentiated capabilities, breadth of product offering and geographic reach.

Continue to Drive Growth and Profitability from our Existing Product Portfolio. We believe we can continue to drive strong organic growth from our existing product portfolio. Through insights gained from our EVA (Economic Value Added) analyses, we develop operating strategies that enable us to focus our resources and investments on products and categories that we believe offer the highest potential. Additionally, EVA analyses identify products and categories that lag the broader portfolio and require corrective action. We believe EVA analysis is a helpful tool which maximizes the full potential of our product offerings.

Leverage Cross-Selling Opportunities Across Customers, Sales Channels and Geographies. While we have high private label food product market shares in the United States for our non-dairy powdered creamer, soup, salad dressing and pickles, as well as high branded and private label food product market share in jams in Canada, we believe we still have significant potential for growth with grocery retailers and foodservice distributors that we either currently serve in a limited manner, or do not currently serve. We believe that our size and scale give us an advantage over smaller private label food product producers, many of whom provide only a single category or service to a single customer or geography. Our ability to service customers across North America and across a wider spectrum of products and capabilities provides many opportunities for cross-selling to customers who seek to reduce the number of private label food product suppliers they utilize.

Growth Through Acquisitions. We believe we have the expertise and demonstrated ability to identify and integrate value-enhancing acquisitions. We selectively pursue acquisitions of complementary businesses that we believe are a compelling strategic fit with our existing operations. Each potential acquisition is vigorously evaluated for merit utilizing a rigorous analysis that assesses targets for their market attractiveness, intrinsic value and strategic fit. We believe our past acquisitions of Oxford Foods, the Del Monte Soup and Infant Feeding business, San Antonio Farms, DeGraffenreid, and E.D. Smith were each a success and consistent with our strategy. Since we began operating as an independent company in 2005, our acquisitions have significantly added to our revenue base, enhanced margins and allowed us to expand from an initial base of two center-of-store, shelf stable food categories to eight, including Sturm. We attempt to maintain conservative financial policies when pursuing acquisitions, and our proven integration strategies have resulted in rapid deleveraging. By identifying targets that fit within our defined strategies, we believe we can continue to expand our product selection and continue our efforts to be the low-cost, high quality and innovative supplier of private label food products for our customers.

The following discussion and analysis presents the factors that had a material effect on our financial condition, changes in financial condition and results of operations for the years ended December 31, 2009, 2008 and 2007. This should be read in conjunction with the Consolidated Financial Statements and the Notes

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to those 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.

The Company completed its annual assessment of goodwill and indefinite lived assets as of December 31, 2009 and did not have goodwill impairment. The Company recognized the impairment of one definite lived trademark resulting in a charge of approximately \$7.6 million, which is related to the North American Retail Grocery segment. No other impairment was noted. For a more detailed description of the results of our analysis and the related assumptions, see our Critical Accounting Policies.

For most of 2009, the economy continued to show signs of weakness with continued high unemployment. The Company continued to focus its efforts on cost containment, margin improvement and volume retention. Our efforts resulted in direct operating income growth of 24.9% and 23.1% for the years ended December 31, 2009 and 2008, respectively.

The acquisition landscape in 2009, when compared to 2008, yielded better opportunities and types of companies we would be interested in acquiring. The improved landscape resulted in the announcement in December 2009 of a definitive agreement to acquire Sturm Foods, for approximately \$660 million. We expect the acquisition to be completed in the first quarter of 2010. As we incorporate this acquisition into our operations, the Company will continue its pursuit of other businesses.

The Company's exposure to foreign exchange rates is primarily limited to the Canadian dollar. At the beginning of 2009, the U.S. dollar was relatively strong versus the Canadian dollar. However, as the year progressed, the U.S. dollar weakened.

Recent Developments

On December 20, 2009, we entered into a definitive Purchase Agreement to acquire all of the issued and outstanding common stock of Sturm for a purchase price of approximately \$660 million in cash (subject to adjustment). We intend to finance the transaction through a combination of approximately \$400 million in new debt issuance, approximately \$100 million in equity stock issuance, and the balance funded from borrowings under our existing revolving credit facility.

The closing of the transaction is subject to certain customary closing conditions and is expected to close in the first quarter of 2010. There can be no assurances, however, that the parties will satisfy the closing conditions and consummate the transaction within the expected timeframe, or at all.

Table of Contents**Results of Operations**

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

	2009		Year Ended December 31, 2008		2007	
	Dollars	Percent	Dollars (Dollars in thousands)	Percent	Dollars	Percent
Net sales	\$ 1,511,653	100.0%	\$ 1,500,650	100.0%	\$ 1,157,902	100.0%
Cost of sales	1,185,283	78.4	1,208,626	80.5	917,611	79.2
Gross profit	326,370	21.6	292,024	19.5	240,291	20.8
Operating expenses:						
Selling and distribution	107,938	7.1	115,731	7.7	94,636	8.2
General and administrative	80,466	5.3	61,741	4.2	53,931	4.7
Amortization expense	13,381	0.9	13,528	0.9	7,195	0.6
Other operating (income) expense, net	(6,224)	(0.4)	13,899	0.9	(415)	
Total operating expenses	195,561	12.9	204,899	13.7	155,347	13.5
Total operating income	130,809	8.7	87,125	5.8	84,944	7.3
Other (income) expense:						
Interest expense	18,430	1.2	27,614	1.8	22,036	1.9
Interest income	(45)		(107)		(112)	
(Gain) loss on foreign currency exchange	(7,387)	(0.5)	13,040	0.9	(3,469)	(0.3)
Other (income) expense, net	(2,263)	(0.1)	7,123	0.5	(36)	
Total other expense	8,735	0.6	47,670	3.2	18,419	1.6
Income from continuing operations, before income taxes	122,074	8.1	39,455	2.6	66,525	5.7
Income taxes	40,760	2.7	10,895	0.7	24,873	2.1
Income from continuing operations	81,314	5.4	28,560	1.9	41,652	3.6
Loss from discontinued operations, net of tax			(336)		(30)	
Net income	\$ 81,314	5.4%	\$ 28,224	1.9%	\$ 41,622	3.6%

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

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Net Sales Net sales increased 0.7% to \$1,511.7 million for the year ended December 31, 2009, compared to \$1,500.7 million, for the year ended December 31, 2008. Net sales by segment are shown in the following table:

	Consolidated Net Sales			% Increase/ (Decrease)
	Year Ended December 31, 2009	Year Ended December 31, 2008	\$ Increase/ (Decrease)	
	(Dollars in thousands)			
North American Retail Grocery	\$ 971,083	\$ 917,102	\$ 53,981	5.9%
Food Away From Home	292,927	294,020	(1,093)	(0.4)
Industrial and Export	247,643	289,528	(41,885)	(14.5)
Total	\$ 1,511,653	\$ 1,500,650	\$ 11,003	0.7%

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Total net sales increased 0.7% as decreases in volume in all segments and the impact of foreign currency were offset by increased pricing and a shift in sales mix.

Cost of Sales All expenses incurred to bring a product to completion are included in cost of sales, such as raw material, ingredient and packaging costs, labor costs, facility and equipment costs, including costs to operate and maintain our warehouses, and costs associated with transporting our finished products from our manufacturing facilities to distribution centers. Cost of sales as a percentage of consolidated net sales decreased to 78.4% in 2009 from 80.5% in the prior year. We experienced increases in certain costs such as metal caps, cans and lids and meat products in 2009 compared to 2008; however, these increases were more than offset by decreases in the cost of casein, oils and plastic containers. The combination of price increases and a net decrease in costs in 2009 versus 2008 has resulted in improvement in our consolidated gross margins.

Operating Costs and Expenses Operating expenses decreased to \$195.6 million in 2009 compared to \$204.9 million in 2008. The decrease in 2009 resulted from the following:

Selling and distribution expenses decreased \$7.8 million in 2009 compared to 2008. The decrease is primarily due to a reduction in freight costs related to lower unit volume and a reduction in freight rates.

General and administrative expenses increased \$18.7 million in 2009 compared to 2008, which was primarily due to increases in incentive based compensation and stock based compensation related to the Company's performance and acquisition costs.

Amortization expense decreased slightly from \$13.5 million in 2008 to \$13.4 million in 2009.

Other operating income was \$6.2 million in 2009 compared to operating expense of \$13.9 million in 2008. Income in 2009 was related to the \$14.5 million gain on insurance settlement relating to a fire at our New Hampton, Iowa facility, partially offset by an \$7.6 million impairment of our *Nature's Goodness*® trademark. Operating expense in 2008 reflected costs associated with the closure of our Portland, Oregon facility.

Operating Income Operating income in 2009 was \$130.8 million, an increase of \$43.7 million, or 50.1% from operating income of \$87.1 million in 2008. Our operating margin was 8.7% in 2009 compared to 5.8% in 2008.

Other (income) expense Other (income) expense includes interest expense, interest income, foreign exchange gains and losses, and other (income) and expenses.

Interest expense in 2009 was \$18.4 million, a decrease of \$9.2 million from 2008. The decrease is due to lower debt levels and lower average interest rates.

The impact of changes in foreign currency resulted in a gain of \$7.4 million in 2009 versus an expense in 2008 of \$13.0 million. In 2009, approximately \$4.9 million of the foreign currency gain was due to the revaluation of an intercompany note, as compared to a currency loss of \$9.1 million in 2008. The remaining \$2.5 million of foreign currency gain is primarily due to currency exchange on cross-border purchases by our Canadian subsidiary, E.D. Smith, as compared to currency loss of \$3.9 million in 2008.

Other (income) expense was a gain of \$2.3 million in 2009 versus a loss of \$7.1 million in 2008. The increase is primarily related to the gain associated with the mark to market adjustment of our interest rate swap agreement, totaling approximately \$2.1 million, compared to a loss of \$7.0 million in 2008.

Income Taxes Income tax expense was recorded at an effective rate of 33.4% for 2009 compared to 27.6% for 2008. The higher effective tax rate in 2009 is due primarily to increased income which reduced the percentage benefit of the cross-border financing structure entered into in conjunction with the E.D. Smith acquisition.

Discontinued operations Loss from discontinued operations was \$0.3 million in 2008 due to the write off of assets held for sale. There were no discontinued operations in 2009.

Table of Contents**Year Ended December 31, 2009 Compared to Year Ended December 31, 2008 Results by Segment***North American Retail Grocery*

	Year Ended December 31,			
	2009		2008	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	\$ 971,083	100.0%	\$ 917,102	100.0%
Cost of sales	738,002	76.0	720,388	78.6
Gross profit	233,081	24.0	196,714	21.4
Freight out and commissions	51,821	5.4	58,756	6.4
Direct selling and marketing	28,411	2.9	23,447	2.6
Direct operating income	\$ 152,849	15.7%	\$ 114,511	12.4%

Net sales in the North American Retail Grocery segment increased by \$54.0 million, or 5.9%, for the year ended December 31, 2009 compared to the prior year. The change in net sales from 2008 to 2009 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2008 Net sales	\$ 917,102	
Volume	(8,721)	(1.0)%
Pricing	66,944	7.3
Foreign currency	(16,731)	(1.8)
Mix/other	12,489	1.4
2009 Net sales	\$ 971,083	5.9%

The increase in net sales from 2008 to 2009 resulted from the carryover effect of price increases taken in the second half of 2008 to cover the cost of rising raw material and packaging costs, partially offset by lower case sales of infant feeding and retail branded pickles, and the impact of foreign currency. While overall case sales decreased in the segment, the Company experienced modest volume increases in soups, Mexican sauces, and salad dressings.

Cost of sales as a percentage of net sales decreased from 78.6% in 2008 to 76.0% in 2009 as price increases have now caught up to the raw material and packaging cost increases experienced by the Company in earlier periods. Also contributing to the decrease were several cost reduction initiatives, moving away from certain low margin customers over the past year and net declines in raw material and packaging costs.

Freight out and commissions paid to independent brokers decreased \$6.9 million or 11.8%, to \$51.8 million in 2009 compared to \$58.8 million in 2008, as a result of reduced volumes and lower freight costs, as fuel costs have decreased since last year.

Direct selling and marketing was \$28.4 million in 2009 compared to \$23.4 million in 2008, an increase of \$5.0 million or 21.2% primarily due to increased levels of incentive based compensation associated with the Company's overall performance.

Table of Contents*Food Away From Home*

	Year Ended December 31,			
	2009		2008	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	\$ 292,927	100.0%	\$ 294,020	100.0%
Cost of sales	239,971	81.9	242,035	82.3
Gross profit	52,956	18.1	51,985	17.7
Freight out and commissions	10,071	3.5	13,567	4.6
Direct selling and marketing	6,816	2.3	6,285	2.2
Direct operating income	\$ 36,069	12.3%	\$ 32,133	10.9%

Net sales in the Food Away From Home segment decreased by \$1.1 million, or 0.4%, for the year ended December 31, 2009 compared to the prior year. The change in net sales from 2008 to 2009 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2008 Net sales	\$ 294,020	
Volume	(8,646)	(2.9)%
Pricing	11,530	3.9
Foreign currency	(1,378)	(0.5)
Mix/other	(2,599)	(0.9)
2009 Net sales	\$ 292,927	(0.4)%

Net sales decreased during 2009 compared to 2008 primarily due to reduced volumes resulting from the recent economic down turn as consumers reduced their spending on dining and eating out. This segment also experienced a decrease in net sales due to both a shift in the sales mix and the impact of foreign currency changes. Increased pricing in response to commodity cost increases over the past year and modest increases in sales units of aseptic products and Mexican sauces, offset the volume declines in pickles and other products.

Cost of sales as a percentage of net sales decreased from 82.3% in 2008 to 81.9% in 2009, as price increases to our customers have now caught up to the increases in raw material, packaging, and energy costs experienced by the Company in earlier periods, combined with improvements in operating efficiencies.

Freight out and commissions paid to independent brokers decreased \$3.5 million or 25.8% to \$10.1 million in 2009 compared to \$13.6 million in 2008, primarily as a result of reduced volumes and lower freight costs, as fuel costs have decreased since last year.

Direct selling and marketing was \$6.8 million in 2009 compared to \$6.3 million in 2008, primarily due to increased levels of incentive based compensation associated with the Company's overall performance.

Table of Contents*Industrial and Export*

	Year Ended December 31,			
	2009		2008	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	\$ 247,643	100.0%	\$ 289,528	100.0%
Cost of sales	203,970	82.4	246,203	85.0
Gross profit	43,673	17.6	43,325	15.0
Freight out and commissions	5,848	2.4	8,821	3.0
Direct selling and marketing	1,800	0.7	1,031	0.4
Direct operating income	\$ 36,025	14.5%	\$ 33,473	11.6%

Net sales in the Industrial and Export segment decreased by \$41.9 million, or 14.5%, for the year ended December 31, 2009 compared to the prior year. The change in net sales from 2008 to 2009 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2008 Net sales	\$ 289,528	
Volume	(51,889)	(17.9)%
Pricing	(1,941)	(0.7)
Foreign currency	(69)	
Mix/other	12,014	4.1
2009 Net sales	\$ 247,643	(14.5)%

The decrease in net sales is primarily due to reduced volumes resulting from lower co-pack sales of branded products for other food companies. While the decline in net sales included the majority of the products sold within this segment, the most significant were in the non-dairy powdered creamer, soup and infant feeding products. Partially offsetting the volume declines was a favorable shift in the mix of products sold.

Cost of sales as a percentage of net sales decreased from 85.0% in 2008 to 82.4% in 2009 as price increases have caught up to input cost increases experienced in prior periods. Also contributing to the reduction were productivity improvements realized in 2009, and net decreases in raw material and packaging costs.

Freight out and commissions paid to independent brokers decreased by \$3.0 million to \$5.8 million primarily due to reduced volumes and lower freight costs, as fuel costs have decreased since last year.

Direct selling and marketing was \$1.8 million in 2009 compared to \$1.0 million in 2008, primarily due to increased levels of incentive based compensation associated with the Company's overall performance.

Table of Contents**Year Ended December 31, 2008 Compared to Year Ended December 31, 2007**

Net Sales Net sales increased 29.6% to \$1,500.7 million for the year ended December 31, 2008, compared to \$1,157.9 million, for the year ended December 31, 2007. Net sales by segment are shown in the following table:

	Consolidated Net Sales			% Increase/ (Decrease)
	Year Ended December 31, 2008	Year Ended December 31, 2007	\$ Increase/ (Decrease)	
	(Dollars in thousands)			
North American Retail Grocery	\$ 917,102	\$ 663,506	\$ 253,596	38.2%
Food Away From Home	294,020	254,580	39,440	15.5
Industrial and Export	289,528	239,816	49,712	20.7
Total	\$ 1,500,650	\$ 1,157,902	\$ 342,748	29.6%

The increase in net sales is primarily due to the full year impact in 2008 of the 2007 acquisitions of E.D. Smith and San Antonio Farms along with price increases taken to offset rising input costs, which were partially offset by volume decreases in the North American Retail Grocery and Food Away From Home segments. Volume decreases were primarily in the pickle and non-dairy powder creamer businesses, reflecting the Company's decision to move away from low margin customers and the impact of the slowing global economy.

Cost of Sales All expenses incurred to bring a product to completion are included in cost of sales, such as raw material, ingredient and packaging costs, labor costs, facility and equipment costs, including costs to operate and maintain our warehouses, and costs associated with transporting our finished products from our manufacturing facilities to our own distribution centers. Cost of sales as a percentage of consolidated net sales increased to 80.5% in 2008 from 79.2% in the prior year. Significant raw material cost increases in 2008 include a 43% increase in casein, a 39% increase in oils, an 11% increase in sweeteners and an 8% increase in cucumber crop costs. Packaging cost increases include a 21% increase in plastic containers and a 12% increase in glass containers. We continued to experience increased raw material and packaging costs that we were able to partially offset with increased operating efficiencies and increases in the prices of our products. See Results by Segment.

Operating Costs and Expenses Operating expenses increased to \$204.9 million in 2008 compared to \$155.3 million in 2007. The increase in 2008 resulted from the following:

Selling and distribution expenses increased \$21.1 million, primarily due to the full year impact in 2008 of the acquisitions of San Antonio Farms in May, 2007 and E.D. Smith in October, 2007.

General and administrative expenses increased \$7.8 million in 2008 compared to 2007, due to the acquisition of San Antonio Farms, in May 2007 and E.D. Smith in October 2007. However, due to synergies realized, general and administrative costs as a percent of revenue decreased from 4.7% in 2007 to 4.2% in 2008.

Amortization expenses increased to \$13.5 million in 2008 from \$7.2 million in 2007, due to the full year impact in 2008 of the acquisition of the San Antonio Farms in the second quarter of 2007 and the acquisition of E.D. Smith in the fourth quarter of 2007.

Other operating expense in 2008 increased \$14.3 million primarily due to the closing of our pickle plant located in Portland, Oregon.

Operating Income Operating income in 2008 was \$87.1 million, an increase of \$2.2 million, or 2.6% from operating income of \$84.9 million in 2007. Our operating margin was 5.8% in 2008 compared to 7.3% in 2007. The impact of the Portland plant closure on operating margin for 2008 was a reduction of 0.9%.

Other (income) expense Other (income) expense includes interest expense, interest income, foreign exchange gains and losses, and other (income) and expenses.

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Interest expense in 2008 was \$27.6 million, an increase of \$5.6 million from 2007. The increase is primarily due to increased debt levels resulting from our 2007 acquisitions. The increase in interest expense was mitigated, as the Company paid down debt during the year and interest rates lowered. Interest income in 2008 and 2007 was \$0.1 million.

The impact of changes in foreign currency resulted in an expense of \$13.0 million in 2008 versus a gain in 2007 of \$3.5 million. In 2008, approximately \$9.1 million of the foreign currency expense was due to the revaluation of an intercompany note. The remaining \$3.9 million of foreign currency expense is primarily due to a full year of foreign currency transaction gains and losses occurring in 2008. The gain in 2007 was primarily due to the forward purchase of Canadian currency used in the 2007 acquisition of E.D. Smith. This did not repeat in 2008.

Other (income) expense was a loss of \$7.1 million in 2008 versus a gain of \$36 thousand in 2007. The increase is primarily related to the mark to market adjustment of our interest rate swap agreement, totaling approximately \$7.0 million.

Income Taxes Income tax expense was recorded at an effective rate of 27.6% for 2008 compared to 37.4% for 2007. The lower effective tax rate in 2008 is due to the favorable intercompany financing structure entered into in conjunction with the E.D. Smith acquisition (See Note 8), combined with the tax benefit of the mark to market adjustment of our interest rate swap agreement.

Discontinued operations Our loss on discontinued operations was \$0.3 million in 2008 versus \$30 thousand in 2007. The increase of \$0.3 million was due to the write off of assets held for sale during 2008. The Company was unable to locate a buyer for these assets and has determined they have no value.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007 Results by Segment***North American Retail Grocery***

	Year Ended December 31, 2008		2007	
	Dollars	Percent (Dollars in thousands)	Dollars	Percent
Net sales	\$ 917,102	100.0%	\$ 663,506	100.0%
Cost of sales	720,388	78.6	509,308	76.8
Gross profit	196,714	21.4	154,198	23.2
Freight out and commissions	58,756	6.4	45,138	6.8
Direct selling and marketing	23,447	2.6	23,767	3.5
Direct operating income	\$ 114,511	12.4%	\$ 85,293	12.9%

Net sales in the North American Retail Grocery segment increased by \$253.6 million, or 38.2%, for the year ended December 31, 2008 compared to the prior year. The change in net sales from 2007 to 2008 was due to the following:

Dollars Percent

	(Dollars in thousands)	
2007 Net sales	\$ 663,506	
Volume	(32,017)	(4.8)%
Mix/other	(1,248)	(0.2)
Acquisitions	240,168	36.2
Pricing	46,693	7.0
2008 Net sales	\$ 917,102	38.2%

The increase in net sales from 2007 to 2008 resulted mainly from the full year impact in 2008 of the acquisition of San Antonio Farms in the second quarter of 2007 and E.D. Smith in the fourth quarter of 2007.

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Price increases taken due to rising raw material and packaging costs more than offset lower case sales of baby food and retail branded pickles. The volume declines related to retail pickle low margin customer rationalization and a decline in branded baby food.

Cost of sales as a percentage of sales increased from 76.8% in 2007 to 78.6% in 2008 primarily as a result of input cost increases throughout 2008 which were not fully offset by price increases.

Freight out and commissions paid to independent brokers increased \$13.6 million or 30.2%, to \$58.8 million in 2008 compared to \$45.1 million in 2007, as a result of increased sales and higher shipping costs primarily due to elevated fuel costs early in 2008.

Food Away From Home

	Year Ended December 31,			
	2008		2007	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	\$ 294,020	100.0%	\$ 254,580	100.0%
Cost of sales	242,035	82.3	209,927	82.5
Gross profit	51,985	17.7	44,653	17.5
Freight out and commissions	13,567	4.6	10,932	4.3
Direct selling and marketing	6,285	2.2	5,401	2.1
Direct operating income	\$ 32,133	10.9%	\$ 28,320	11.1%

Net sales in the Food Away From Home segment increased by \$39.4 million, or 15.5%, for the year ended December 31, 2008 compared to the prior year. The change in net sales from 2007 to 2008 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2007 Net sales	\$ 254,580	
Volume	(16,944)	(6.7)%
Mix/other	5,973	2.4
Acquisitions	32,529	12.8
Pricing	17,882	7.0
2008 Net sales	\$ 294,020	15.5%

Sales increased in 2008 compared to 2007 primarily due to the acquisitions of San Antonio Farms in May 2007, and the E.D. Smith acquisition in October 2007. Price increases taken in 2008 to offset rising input costs also contributed to the increase. Volume declined as the Company moved away from low margin pickle customers and experienced adverse economic conditions in the Food Away From Home industry in 2008.

Cost of sales as a percentage of net sales decreased from 82.5% in 2007 to 82.3% in 2008, as price increases to our customers offset increases in raw material, packaging, and energy costs, combined with improvements in operating efficiencies.

Freight out and commissions paid to independent brokers increased \$2.6 million or 24.1% to \$13.6 million in 2008 compared to \$10.9 million in 2007, primarily as a result of the higher sales and increased shipping costs due to elevated fuel costs early in 2008.

Table of Contents*Industrial and Export*

	Year Ended December 31,			
	2008		2007	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	\$ 289,528	100.0%	\$ 239,816	100.0%
Cost of sales	246,203	85.0	198,376	82.7
Gross profit	43,325	15.0	41,440	17.3
Freight out and commissions	8,821	3.0	7,976	3.3
Direct selling and marketing	1,031	0.4	761	0.4
Direct operating income	\$ 33,473	11.6%	\$ 32,703	13.6%

Net sales in the Industrial and Export segment increased by \$49.7 million, or 20.7%, for the year ended December 31, 2008 compared to the prior year. The change in net sales from 2007 to 2008 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2007 Net sales	\$ 239,816	
Volume	13,960	5.8%
Mix/other	(12,417)	(5.2)
Acquisitions	3,314	1.4
Pricing	44,855	18.7
2008 Net sales	\$ 289,528	20.7%

Price increases were taken in 2008 in an effort to offset the significant increases in input costs. In addition, we realized volume increases during the year from the existing customer base.

Cost of sales as a percentage of net sales increased from 82.7% in 2007 to 85.0% in 2008 as price increases to our customers did not fully offset increases in raw materials and packaging costs. Also contributing to the increase was a shift in our mix of customers towards lower margin co-pack customers.

Freight out and commissions paid to independent brokers increased by \$0.8 million to \$8.8 million as a result of increased fuel costs early in 2008. However, these costs decreased as a percent of revenue from 3.3% in 2007 to 3.0% in 2008 due to combining shipments and leveraging freight rates with the other product lines.

Known Trends and Uncertainties*Prices of Raw Materials*

We were adversely affected by rising input costs during 2008 and 2007, however, during 2009 certain input costs decreased from these high levels. Many of the raw materials used in our products rose to unusually high levels during 2008, including processed vegetables and meats, soybean oil, casein, cheese and packaging materials. Fluctuating fuel costs also impacted our results. While prices for many of our raw materials decreased during 2009 from their historic highs reached in the prior year, the Company expects moderate price volatility for the next year with an upward trend. We manage the impact, wherever possible, on commercially reasonable terms, by locking in prices on quantities required to meet our production requirements. In addition, we offset the effect by raising prices to our customers. However, for competitive reasons, we may not be able to pass along the full effect of increases in raw materials and other input costs as we incur them. In addition, in instances of declining input costs, customers may be looking for price reductions in situations where we have locked into purchases at higher costs.

Table of Contents***Competitive Environment***

There has been significant consolidation in the retail grocery and foodservice industries in recent years, and mass merchandisers are gaining market share. As our customer base continues to consolidate, we expect competition to intensify as we compete for the business of fewer, large customers. There can be no assurance that we will be able to keep our existing customers, or gain new customers. As the consolidation of the retail grocery and foodservice industry continues, we could lose sales if any one or more of our existing customers were to be sold.

Both the difficult economic environment and the increased competitive environment in the retail and foodservice channels have caused competition to become increasingly intense in our business. We expect this trend to continue for the foreseeable future.

Liquidity and Capital Resources

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 from operating activities and remains in a strong financial position, with resources available for reinvestment in existing businesses, acquisitions and managing its capital structure on a short and long-term basis. Over the last three years, the Company has generated \$376.9 million in cash flow from operating activities by focusing on working capital management. If additional borrowings are needed, approximately \$293.0 million was available on the revolving credit facility as of December 31, 2009. This facility expires in 2011. We believe that, given our cash flow from operating activities and our available credit capacity, we can comply with the current terms of the credit facility and meet foreseeable financial requirements.

Cash flows from operating activities:

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Net income	\$ 81,314	\$ 28,224	\$ 41,622
Loss from discontinued operations		336	30
Depreciation & amortization	47,343	45,854	34,986
Stock-based compensation	13,303	12,193	13,580
(Gain) loss on foreign currency exchange	(4,932)	9,034	
Mark to market (gain) loss on interest swap	(2,104)	6,981	
Gain on disposition of assets	(11,885)	(469)	(498)
Write-down of impaired assets	7,600	5,991	
Deferred income taxes	18,596	5,314	5,940
Changes in operating assets and liabilities, net of acquisitions	(44,383)	62,428	611
Other	(8)	(240)	161
Net cash provided by continuing operations	104,844	175,646	96,432
Net cash provided by discontinued operations		(10)	(30)
Net cash provided by operating activities	\$ 104,844	\$ 175,636	\$ 96,402

Our cash from operations decreased from \$175.6 million in 2008 to \$104.8 million in 2009. Higher net income in the year ended December 31, 2009 compared to 2008 was more than offset by a decrease in accounts payable from the high level in 2008, a build in inventories due to higher pickle production resulting from a strong 2009 cucumber crop and the forward purchase of certain commodities.

Table of Contents*Cash flows from investing activities:*

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Additions to property, plant and equipment	\$ (36,987)	\$ (55,471)	\$ (19,814)
Insurance proceeds	2,863	12,047	
Cash outflows for acquisitions and investments, less cash acquired		(251)	(449,937)
Proceeds from sale of fixed assets	6	1,679	1,465
Net cash used in continuing operations	(34,118)	(41,996)	(468,286)
Net cash provided by discontinued operations		157	467
Net cash used in investing activities	\$ (34,118)	\$ (41,839)	\$ (467,819)

In 2009, cash used in investing activities decreased by \$7.7 million from 2008, primarily due to a decrease in capital additions as the Company had several large projects that were initiated in 2008 and completed in 2009, including the repair of the New Hampton, Iowa facility that was damaged by fire in February of 2008. Capital spending in 2009 included projects to improve plant efficiencies and upgrades to our Pittsburgh plant water and power systems, capacity expansion at our North East, Pennsylvania facility, completion of the repair of the New Hampton, Iowa facility and routine equipment upgrades or replacements at all of our facilities which number sixteen across the United States and Canada. The expenditures related to the New Hampton, Iowa facility were partially offset by proceeds received from our insurance claim.

We expect capital spending programs to be approximately \$60.0 million in 2010. Capital spending in 2010 will focus on food safety, quality, productivity improvements, installation of an ERP system and routine equipment upgrades or replacements at all of our plants.

Cash flows from financing activities:

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Proceeds from issuance of debt	\$	\$	\$ 440,035
Net repayment of debt	(74,484)	(145,537)	(59,150)
Payments of deferred financing costs			(230)
Excess tax benefits from stock-based payment arrangements	169	377	
Cash used to net share settle equity awards	(336)		
Proceeds from stock option exercises	4,926	5,434	44
Net cash provided by (used in) financing activities	\$ (69,725)	\$ (139,726)	\$ 380,699

Net cash used in financing activities decreased from \$139.7 million in 2008 to \$69.7 million in 2009, as cash provided from operating activities (used to pay down debt) was \$70.8 million less than 2008. See cash flows from operating activities. In 2007, we borrowed \$440.0 million, primarily to finance the E.D. Smith and San Antonio Farms acquisitions. In 2009 and 2008, we did not complete any acquisitions and used the cash flow generated by operations to pay down our outstanding debt.

In connection with our proposed acquisition of Sturm, we expect to fund the purchase price of approximately \$660 million through the issuance of \$400 million in new debt, approximately \$100 million in equity stock issuance and the balance of approximately \$160 million funded from borrowings under our existing revolving credit agreement. The transaction is expected to close in the first quarter of 2010.

The Company believes it has sufficient liquidity, after considering the debt requirements of the Sturm acquisition, and does not anticipate a significant risk to cash flows in the foreseeable future despite the current

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disruption of the credit markets, because the Company operates in a relatively stable industry and has sizable market share across its product lines. The Company's long-term financing needs will depend largely on potential acquisition activity.

The impact of the reduction in equity values of the stock market in late 2008 and early 2009 resulted in a reduced funded balance of our Pension Plan, and required additional cash contributions in 2009, which was funded by cash flows from operations. The Company contributed \$8.9 million in 2009 and expects to make contributions of approximately \$0.9 million in 2010.

Seasonality

The Company's short-term financing needs are primarily for financing working capital during the year. Due to the seasonality of cucumber and fruit production driven by harvest cycles, which occur primarily during the spring and summer, inventories generally are at a low point in late spring and at a high point during the fall, increasing our working capital requirements. In addition, the Company builds inventories of salad dressings in the spring and soup in the summer months in anticipation of large seasonal shipments that begin late in the third quarter.

Sources of Capital

Revolving Credit Facility On August 30, 2007, the Company entered into Amendment No. 2 to the unsecured revolving Credit Agreement, as amended (the "Credit Agreement"), dated June 27, 2005, with a group of participating financial institutions. Among other things, Amendment No. 2 reduces the available liquidity requirement with respect to permitted acquisitions and reduces the required consolidated interest coverage ratio at the end of each fiscal quarter. The Company also exercised its option under the Credit Agreement to increase the aggregate commitments under the revolving credit facility from \$500 million to \$600 million. The Credit Agreement also provides for a \$75 million letter of credit sublimit, against which \$8.8 million in letters of credit have been issued but undrawn. Proceeds from the credit facility may be used for working capital and general corporate purposes, including acquisition financing. The credit facility contains various financial and other restrictive covenants and requires that we maintain certain financial ratios, including a leverage and interest coverage ratio. The Company is in compliance with all applicable covenants as of December 31, 2009.

During 2008, the Company entered into a \$200 million long-term interest rate swap agreement with an effective date of November 19, 2008 to lock into a fixed LIBOR interest rate base. Under the terms of the agreement, \$200 million in floating rate debt was swapped for a fixed rate of 2.9% interest rate base for a period of 24 months, amortizing to \$50 million for an additional nine months at the same 2.9% interest rate. The Company did not apply hedge accounting and recorded the fair value of this instrument on its balance sheet within other long term liabilities. The fair value of the swap, using Level 2 inputs, was a liability of approximately \$4.9 million and \$7.0 million as of December 31, 2009 and 2008, respectively. In 2009 and 2008, the Company recorded income of \$2.1 million and expense of \$7.0 million, respectively, related to the mark to market adjustment within the Other (income) expense line of the Consolidated Statements of Income.

On September 22, 2006, the Company completed a private placement of \$100 million in aggregate principal of 6.03% senior notes due September 30, 2013 pursuant to a Note Purchase Agreement among TreeHouse and a group of purchasers. All of the Company's obligations under the senior notes are fully and unconditionally guaranteed by Bay Valley Foods, LLC, a wholly-owned subsidiary of the Company. The senior notes have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption. Net proceeds were used to repay outstanding indebtedness under the revolving Credit Agreement. The Company is in compliance with all applicable covenants as of December 31, 2009.

Table of Contents***Contractual Obligations***

The following table summarizes the Company's obligations and commitments to make future payments as of December 31, 2009:

Indebtedness, Purchase & Lease Obligations

	Total	Payments Due by Period			
		Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
			(In thousands)		
Revolving credit facility(1)	\$ 302,722	\$ 2,914	\$ 299,808	\$	\$
Senior notes(2)	122,613	6,030	12,060	104,523	
Capital lease obligations(3)	1,817	589	768	457	3
Purchasing obligations(4)	223,265	158,158	63,852	1,220	35
Operating leases(5)	44,966	12,869	17,918	7,221	6,958
Benefit obligations(6)	27,657	2,009	4,436	5,224	15,988
Deferred compensation(7)	5,310	136	356	1,943	2,875
FIN 48 liability(8)	630		630		
Tax increment financing(9)	3,912	391	778	782	1,961
Total	\$ 732,892	\$ 183,096	\$ 400,606	\$ 121,370	\$ 27,820

(1) Revolving credit facility obligation includes principal of \$298.2 million and interest at an average rate of 0.91% at December 31, 2009. The principal is due August 31, 2011. (See Note 9)

(2) Senior note obligation includes principal and interest payments based on a fixed interest rate of 6.03%. Principal payment is due September 30, 2013. (See Note 9)

(3) Payments required under long-term capitalized lease contracts.

(4) Primarily represents commitments to purchase minimum quantities of raw materials used in our production processes. We enter into these contracts from time to time in an effort to ensure a sufficient supply of raw ingredients. In addition, we have contractual obligations to purchase various services that are part of our production process.

(5) In accordance with GAAP, these obligations are not reflected in the accompanying balance sheets. Operating lease obligations consist of minimum rental payments under non-cancelable operating leases.

(6) Benefit obligations consist of future payments related to pension and postretirement benefits as estimated by an actuarial valuation.

(7) Deferred compensation obligations have been allocated to payment periods based on existing payment plans for terminated employees and the estimated timing of distributions of current employees based on age.

- (8) The FIN 48 long term liability recorded by the Company is \$2.1 million at December 31, 2009, 30% of which is expected to be settled within one to three years. The remaining 70% or \$1.5 million has been excluded from the table. The timing of cash settlement for this portion, if any, cannot be reasonably estimated due to offsetting positions and conclusions upon audit. The Company's gross unrealized tax benefit is approximately \$3.2 million. The difference between the gross unrealized tax benefit and the FIN 48 liability is due to the inclusion of corollary positions, interest, penalties, as well as the impact of state taxes on the federal tax liability, which are included in the computation of the FIN 48 liability but not the gross unrecognized tax benefit. (See Note 8 to our Consolidated Financial Statements). Deferred tax liabilities are excluded from the table due to uncertainty in their timing.
- (9) Tax increment financing obligation includes principal and interest payments based on rates ranging from 6.61% to 7.16%. Final payment is due May 1, 2019. (See Note 9)

In addition to the commitments set forth in the above table, at December 31, 2009, the Company had \$8.8 million in letters of credit primarily related to the Company's workers' compensation program.

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Off-Balance Sheet Arrangements

The Company does 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 the Consolidated Financial Statements.

Other Commitments and Contingencies

The Company also has the following commitments and contingent liabilities, in addition to contingent liabilities related to ordinary course litigation, investigations and tax audits:

certain lease obligations, and

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

See Note 18 to our Consolidated Financial Statements for more information about the Company's commitments and contingent obligations.

Critical Accounting Policies

Critical accounting policies are defined as those that are most important to the portrayal of a company's financial condition and results and that require our most difficult, subjective or complex judgments. In many cases the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles with no need for the application of our judgment. In certain circumstances, however, the preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires us to use our judgment to make certain estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of net sales and expenses during the reporting period. We have identified the policies described below as our critical accounting policies. See Note 1 to the Consolidated Financial Statements for a detailed discussion of these and other accounting policies.

Accounts Receivable Allowances We maintain an allowance for customer promotional programs, marketing co-op programs and other sales and marketing expenses. This allowance is based on historical rolling twelve month average program activity and can fluctuate due to the level of sales and marketing programs, and timing of deductions. This allowance was \$8.3 million and \$7.3 million, at December 31, 2009 and 2008, respectively.

Inventories Inventories are stated at the lower of cost or market. Pickle inventories are valued using the last-in, first-out (LIFO) method, while all of our other inventories are valued using the first-in, first-out (FIFO) method. These valuations have been reduced by an allowance for obsolete and defective products and packaging materials. The estimated allowance is based on a review of inventories on hand compared to estimates of future demand, changes in formulas and packaging materials and inferior product. The Company's allowances were \$6.9 million and \$3.3 million at December 31, 2009 and 2008, respectively.

Goodwill and Intangible Assets Goodwill and intangible assets totaled \$727.5 million as of December 31, 2009, resulting primarily from acquisitions. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including but not limited to trademarks and customer-related intangible assets, with any remaining purchase price recorded as goodwill. Goodwill and indefinite lived trademarks are not amortized. For purposes of goodwill impairment testing, our reporting units are defined as North American Retail Grocery U.S., North American Retail

Grocery Canada, Food Away From Home U.S., Food Away From Home Canada, Industrial Bulk and Co-Pack U.S., and Co-Pack Canada.

We believe that a trademark has an indefinite life if it has sufficient market share and a history of strong sales and cash flow performance that we expect to continue for the foreseeable future. If these perpetual trademark criteria are not met, the trademarks are amortized over their expected useful lives. Determining the expected life of a trademark requires considerable management judgment and is based on an evaluation of a

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number of factors including the competitive environment, market share, trademark history and anticipated future trademark support.

Indefinite lived trademarks and goodwill are evaluated for impairment annually in the fourth quarter, or more frequently, if other events occur, to ensure that fair value continues to exceed the related book value. An indefinite lived trademark is impaired if its book value exceeds fair value. Goodwill impairment is indicated if the book value of its reporting unit exceeds its fair value. If the fair value of an evaluated asset is less than its book value, the asset is written down to fair value, which is generally based on its discounted future cash flows. Future business results could impact the evaluation of our goodwill and intangible assets.

The Company completed its annual goodwill and indefinite lived intangible asset impairment analysis as of December 31, 2009. Our assessment did not result in goodwill impairment. We have seven reporting units, five of which contain goodwill totaling \$575.0 million. Our analysis employed the use of both a market and income approach, with each method given equal weighting. Significant assumptions used in the income approach include growth and discount rates, margins and the Company's weighted average cost of capital. We used historical performance and management estimates of future performance to determine margins and growth rates. Discount rates selected for each reporting unit varied, with the weighted average of all discount rates being equal to the total Company discount rate. Our weighted average cost of capital included a review and assessment of market and capital structure assumptions. Further supporting our assessment of goodwill is the fact that our Company's stock price has increased from December 31, 2008 to December 31, 2009 by approximately 43.0%. Of the five reporting units with goodwill, three have fair values significantly in excess of their carrying values (between 75% and 95%), while another reporting unit has a fair value that is approximately 35% in excess of its carrying value. Our final reporting unit, Retail Grocery Canada, has a fair value that is approximately 14% in excess of its carrying value. Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Changes in our estimates or any of our other assumptions used in our analysis could result in a different conclusion.

We reviewed our indefinite lived intangible assets, which include our trademarks totaling \$31.4 million, using the relief from royalty method. Significant assumptions include the royalty, growth and discount rates. Our assumptions were based on historical performance and management estimates of future performance, as well as available data on licenses of similar products. Our analysis resulted in no impairment. The Company's policy is that indefinite lived assets must have a history of strong sales and cash flow performance that we expect to continue for the foreseeable future. When these criteria are no longer met, the Company changes the classification. Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Changes in our estimates or any of our other assumptions used in our analysis could result in a different conclusion.

Amortizable intangible assets which include primarily customer relationships and trademarks are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its fair value, which is generally based on discounted future cash flows. We reviewed our amortizable intangible assets and our analysis resulted in the impairment of our *Nature's Goodness*® trademark totaling \$7.6 million, and is related to the North American Retail Grocery U.S. segment. No other impairment was identified and the Company concluded no changes are necessary to the remaining useful lives or values of the remaining amortizable intangible assets as of December 31, 2009.

Purchase Price Allocation We allocate the purchase price of acquisitions to the assets acquired and liabilities assumed. All identifiable assets acquired, including identifiable intangibles, and liabilities assumed are assigned a portion of the purchase price of the acquired company, normally equal to their fair values at the date of acquisition. The excess of the purchase price of the acquired company over the sum of the amounts assigned to identifiable assets acquired, less liabilities assumed is recorded as goodwill. We record the initial purchase price allocation based on

evaluation of information and estimates available at the date of the financial statements. As final information regarding fair value of assets acquired and liabilities assumed is received and estimates are refined, appropriate adjustments are made to the purchase price allocation. To the extent that such adjustments indicate that the fair values of assets and liabilities differ from their preliminary purchase

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price allocations, such differences would adjust the amounts allocated to those assets and liabilities and would change the amounts allocated to goodwill. The final purchase price allocation includes the consideration of a number of factors to determine the fair value of individual assets acquired and liabilities assumed, including quoted market prices, forecast of expected cash flows, net realizable values, estimates of the present value of required payments and determination of remaining useful lives.

Income Taxes Deferred taxes are recognized for future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. We periodically estimate our probable tax obligations using historical experience in tax jurisdictions and informed judgments. There are inherent uncertainties related to the interpretations of tax regulations in the jurisdictions in which we operate. These judgments and estimates made at a point in time may change based on the outcome of tax audits and changes to or further interpretations of regulations. If such changes take place, there is a risk that our tax rate may increase or decrease in any period, which would have an impact on our earnings. Future business results may affect deferred tax liabilities or the valuation of deferred tax assets over time.

Stock-Based Compensation Income from Continuing Operations Before Income Taxes, for the years ended December 31, 2009 and December 31, 2008, included share-based compensation expense for employee and director stock options, restricted stock, restricted stock units, and performance units of \$13.3 million and \$12.2 million, respectively.

The fair value of stock options, restricted stock, restricted stock unit awards and performance units (the Awards) is determined on the date of grant. Stock options were valued using a Black Scholes model and certain restricted stock and restricted stock units were valued using a Monte Carlo simulation. Performance units and all other restricted stock and restricted stock unit awards were valued using the closing price of the Company's stock on the date of grant. Stock-based compensation expense, as calculated and recorded, could have been impacted, if other assumptions were used. Furthermore, if we use different assumptions in future periods, stock-based compensation expense could be impacted in future periods. As the Company's stock was not publicly traded prior to June 27, 2005, expected volatilities are based on the implied historical volatilities from peer companies and other factors. The Company has estimated that certain employees will complete the required service conditions associated with certain Awards. For all other employees, the Company estimates forfeitures as not all employees are expected to complete the required service conditions. The expected service period is the longer of the derived service period, as determined from the output of the valuation models, and the service period based on the term of the Awards. The risk-free interest rate for periods within the contractual life of the Awards is based on the U.S. Treasury yield curve in effect at the time of the grant. As the Company does not have significant history to determine the expected term of its option awards, we based the expected term on that of comparable companies. The assumptions used to calculate the option and restricted stock awards granted in 2009 are presented in Note 11 to the Consolidated Financial Statements.

Insurance Accruals We retain selected levels of property and casualty risks, primarily related to employee health care, workers compensation claims and other casualty losses. Many of these potential losses are covered under conventional insurance programs with third-party carriers having high deductible limits. In other areas, we are self-insured with stop-loss coverage. Accrued liabilities for incurred but not reported losses related to these retained risks are calculated based upon loss development factors which contemplate a number of variables, including claims history and expected trends. These loss development factors are based on industry factors and, along with the estimated liabilities, are developed by us in consultation with external insurance brokers and actuaries. At December 31, 2009 and 2008, we recorded accrued liabilities related to these retained risks of \$9.1 million and \$8.5 million, respectively, including both current and long-term liabilities. Changes in loss development factors, claims history and cost trends could result in substantially different results in the future.

Employee Benefit Plan Costs We provide a range of benefits to our employees, including pension and postretirement benefits to our eligible employees and retirees. We record annual amounts relating to these plans based on calculations specified by generally accepted accounting principles, which include various actuarial assumptions, such as discount rates, assumed investment rates of return, compensation increases,

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employee turnover rates and health care cost trend rates. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends, when it is deemed appropriate. As required by generally accepted accounting principles, the effect of the modifications is generally recorded and amortized over future periods. Different assumptions that we make could result in the recognition of different amounts of expense over different periods of time.

Our current asset mix guidelines, under our investment policy as written by our Investment Committee, target equities at 55% to 65% of the portfolio and fixed income at 35% to 45%. At December 31, 2009, our master trust was invested as follows: equity securities of 66%; fixed income securities of 32%; and cash and cash equivalents of 2%.

We determine our expected long-term rate of return based on our expectations of future returns for the pension plan's investments based on target allocations of the pension plan's investments. Additionally, we consider the weighted-average return of a capital markets model and historical returns on comparable equity, debt and other investments. The resulting weighted average expected long-term rate of return on plan assets is 7.60%.

While a number of the key assumptions related to our qualified pension plans are long-term in nature, including assumed investment rates of return, compensation increases, employee turnover rates and mortality rates, generally accepted accounting principles require that our discount rate assumption be more heavily weighted to current market conditions. As such, our discount rate will likely change more frequently. We used a discount rate to determine our estimated future benefit obligations of 5.75%, at December 31, 2009.

See Note 13 to our Consolidated Financial Statements for more information regarding our employee pension and retirement benefit plans.

Recent Accounting Pronouncements

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

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Fluctuations

The Company entered into a \$200 million long term interest rate swap agreement with an effective date of November 19, 2008 to lock into a fixed LIBOR interest rate base. Under the terms of the agreement, \$200 million in floating rate debt was swapped for a fixed 2.9% interest base rate for a period of 24 months, amortizing to \$50 million for an additional nine months at the same 2.9% interest rate. Under the terms of the Company's revolving credit agreement, and in conjunction with our credit spread, this will result in an all in borrowing cost on the swapped principal being no more than 3.8% during the life of the swap agreement.

In July 2006, we entered into a forward interest rate swap transaction for a notational amount of \$100 million as a hedge of the forecasted private placement of \$100 million in senior notes. The interest rate swap transaction was terminated on August 31, 2006, which resulted in a pre-tax loss of \$1.8 million. The unamortized loss is reflected, net of tax, in Accumulated other comprehensive loss in the Consolidated Balance Sheets. The total loss will be reclassified ratably to the Consolidated Statements of Income as an increase to interest expense over the term of the senior notes, providing an effective interest rate of 6.29% over the terms of the senior notes.

We do not utilize financial instruments for trading purposes or hold any derivative financial instruments, other than our interest rate swap agreement, as of December 31, 2009, which could expose us to significant market risk. Our

exposure to market risk for changes in interest rates relates primarily to the increase in the amount of interest expense we expect to pay with respect to our revolving credit facility, which is tied to variable market rates which includes LIBOR and prime interest rates. Based on our outstanding debt balance of \$298.2 million under our revolving credit facility, and adjusting for the \$200 million fixed rate swap

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agreement, as of December 31, 2009, each 1% rise in our interest rate would increase our interest expense by approximately \$1.0 million annually.

Input Costs

The costs of raw materials, as well as packaging materials and fuel, have varied widely in recent years and future changes in such costs may cause our results of operations and our operating margins to fluctuate significantly. We experienced increases in certain costs such as metal caps, cans and lids and meat products in 2009 compared to 2008, however, these increases were more than offset by decreases in the cost of oils, casein and plastic containers. In addition, fuel costs, which represent the most important factor affecting utility costs at our production facilities and our transportation costs, rose to unusually high levels in the middle of 2008, but have decreased proportionately to the general reduction in overall economic activity in 2009.

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

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

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Item 8. *Financial Statements and Supplementary Data*

The Consolidated Financial Statements for 2009 are included in this report on the following pages:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	39
<u>Consolidated Balance Sheets as of December 31, 2009 and 2008</u>	40
<u>Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007</u>	41
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2009, 2008 and 2007</u>	42
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007</u>	43
<u>Notes to Consolidated Financial Statements</u>	44

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
TreeHouse Foods, Inc.
Westchester, IL 60154

We have audited the accompanying consolidated balance sheets of TreeHouse Foods, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of TreeHouse Foods, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Chicago, Illinois
February 16, 2010

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TREEHOUSE FOODS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2009	2008
	(In thousands, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,415	\$ 2,687
Receivables, net of allowance for doubtful accounts of \$424 and \$478	86,557	86,837
Inventories, net	264,933	245,790
Deferred income taxes	3,397	6,769
Assets held for sale	4,081	4,081
Prepaid expenses and other current assets	7,269	10,315
Total current assets	370,652	356,479
Property, plant and equipment, net	276,033	270,664
Goodwill	575,007	560,874
Identifiable intangible and other assets, net	162,736	167,665
Total assets	\$ 1,384,428	\$ 1,355,682
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 148,819	\$ 187,795
Current portion of long-term debt	906	475
Total current liabilities	149,725	188,270
Long-term debt	401,640	475,233
Deferred income taxes	45,381	27,485
Other long-term liabilities	31,453	44,563
Total liabilities	628,199	735,551
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, par value \$.01 per share, 10,000,000 shares authorized, none issued		
Common stock, par value \$.01 per share, 90,000,000 and 40,000,000 shares authorized, respectively, 31,998,921 and 31,544,515 shares issued and outstanding, respectively	320	315
Additional paid-in-capital	587,598	569,262
Retained earnings	195,262	113,948
Accumulated other comprehensive loss	(26,951)	(63,394)

Total stockholders' equity	756,229	620,131
Total liabilities and stockholders' equity	\$ 1,384,428	\$ 1,355,682

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2009	2008	2007
	(In thousands, except per share data)		
Net sales	\$ 1,511,653	\$ 1,500,650	\$ 1,157,902
Cost of sales	1,185,283	1,208,626	917,611
Gross profit	326,370	292,024	240,291
Operating expenses:			
Selling and distribution	107,938	115,731	94,636
General and administrative	80,466	61,741	53,931
Amortization expense	13,381	13,528	7,195
Other operating (income) expenses, net	(6,224)	13,899	(415)
Total operating expenses	195,561	204,899	155,347
Operating income	130,809	87,125	84,944
Other (income) expense:			
Interest expense	18,430	27,614	22,036
Interest income	(45)	(107)	(112)
(Gain) loss on foreign currency exchange	(7,387)	13,040	(3,469)
Other (income) expense, net	(2,263)	7,123	(36)
Total other expense	8,735	47,670	18,419
Income from continuing operations, before income taxes	122,074	39,455	66,525
Income taxes	40,760	10,895	24,873
Income from continuing operations	81,314	28,560	41,652
Loss from discontinued operations, net of tax benefit of \$0, \$(213) and \$(19), respectively		(336)	(30)
Net income	\$ 81,314	\$ 28,224	\$ 41,622
Weighted average common shares:			
Basic	31,982	31,341	31,203
Diluted	32,798	31,469	31,351
Basic earnings per common share:			
Income from continuing operations	\$ 2.54	\$.91	\$ 1.33
Loss from discontinued operations, net of tax		(.01)	
Net income	\$ 2.54	\$.90	\$ 1.33

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Diluted earnings per common share:						
Income from continuing operations	\$	2.48	\$.91	\$	1.33
Loss from discontinued operations, net of tax				(.01)		
Net income	\$	2.48	\$.90	\$	1.33

See Notes to Consolidated Financial Statements.

Table of Contents**TREEHOUSE FOODS, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	(In thousands)					
Balance, December 31, 2006	31,202	\$ 312	\$ 536,934	\$ 44,108	\$ (5,105)	\$ 576,249
Net income				41,622		41,622
Pension & post-retirement liability adjustment, net of tax of \$768					1,172	1,172
Foreign currency translation adjustment					(3,325)	(3,325)
Amortization of loss on derivatives, net of tax of \$101					161	161
Comprehensive income						39,630
Stock options exercised, including tax benefit of \$2	2		44			44
Stock options forfeited			(188)			(188)
Adoption of FIN 48				(6)		(6)
Stock-based compensation			13,580			13,580
Balance, December 31, 2007	31,204	312	550,370	85,724	(7,097)	629,309
Net income				28,224		28,224
Pension & post-retirement liability adjustment, net of tax of \$4,070					(6,261)	(6,261)
Foreign currency translation adjustment					(50,198)	(50,198)
Amortization of loss on derivatives, net of tax of \$101					162	162
Comprehensive loss						(28,073)
Stock options exercised, including tax benefit of \$1,356	341	3	6,787			6,790
Stock options forfeited			(88)			(88)
Stock-based compensation			12,193			12,193
Balance, December 31, 2008	31,545	315	569,262	113,948	(63,394)	620,131

Net income					81,314			81,314
Pension & post-retirement liability adjustment, net of tax of \$384							604	604
Foreign currency translation adjustment							35,678	35,678
Amortization of loss on derivatives, net of tax of \$101							161	161
Comprehensive income								117,757
Stock options exercised, including tax benefit of \$731	454	5	5,092					5,097
Stock options forfeited			(59)					(59)
Stock-based compensation			13,303					13,303
Balance, December 31, 2009	31,999	\$ 320	\$ 587,598	\$ 195,262	\$ (26,951)	\$		756,229

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 81,314	\$ 28,224	\$ 41,622
Loss from discontinued operations		336	30
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	33,962	32,326	27,791
Amortization	13,381	13,528	7,195
Stock-based compensation	13,303	12,193	13,580
(Gain) loss on foreign currency exchange, intercompany note	(4,932)	9,034	
Mark to market (gain) loss on interest swap	(2,104)	6,981	
Gain on disposition of assets	(11,885)	(469)	(498)
Write-down of impaired assets	7,600	5,991	
Deferred income taxes	18,596	5,314	5,940
Excess tax benefits from stock-based compensation	(169)	(377)	
Other	161	137	161
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	3,739	(14,395)	10,164
Inventories	(14,062)	43,396	(27,115)
Prepaid expenses and other assets	(647)	(2,063)	4,390
Accounts payable, accrued expenses and other liabilities	(33,413)	35,490	13,172
Net cash provided by continuing operations	104,844	175,646	96,432
Net cash used in discontinued operations		(10)	(30)
Net cash provided by operating activities	104,844	175,636	96,402
Cash flows from investing activities:			
Additions to property, plant and equipment	(36,987)	(55,471)	(19,814)
Insurance proceeds	2,863	12,047	
Cash outflows for acquisitions and investments, less cash acquired		(251)	(449,937)
Proceeds from sale of fixed assets	6	1,679	1,465
Net cash used in continuing operations	(34,118)	(41,996)	(468,286)
Net cash provided by discontinued operations		157	467
Net cash used in investing activities	(34,118)	(41,839)	(467,819)
Cash flows from financing activities:			
Proceeds from issuance of debt			440,035
Net repayment of debt	(74,484)	(145,537)	(59,150)

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Payments of deferred financing costs			(230)
Excess tax benefits from stock-based payment arrangements	169	377	
Cash used to net share settle equity awards	(336)		
Proceeds from stock option exercises	4,926	5,434	44
Net cash (used in) provided by financing activities	(69,725)	(139,726)	380,699
Effect of exchange rate changes on cash and cash equivalents	727	(614)	(58)
Increase (decrease) in cash and cash equivalents	1,728	(6,543)	9,224
Cash and cash equivalents, beginning of year	2,687	9,230	6
Cash and cash equivalents, end of year	\$ 4,415	\$ 2,687	\$ 9,230

See Notes to Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Years ended December 31, 2009, 2008 and 2007)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation.

Use of Estimates The preparation of our Consolidated Financial Statements in conformity with generally accepted accounting principles (GAAP) requires management to use 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 Consolidated Financial Statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from these estimates.

Subsequent Events The Company has evaluated all subsequent events through February 16, 2010, which is the date that the accompanying financial statements are being issued.

Cash Equivalents We consider temporary cash investments with an original maturity of three months or less to be cash equivalents.

Inventories Inventories are stated at the lower of cost or market. Pickle inventories are valued using the last-in, first-out (LIFO) method, while all of our other inventories are valued using the first-in, first-out (FIFO) method. The costs of finished goods inventories include raw materials, labor and overhead costs.

Property, Plant and Equipment Property, plant and equipment are stated at acquisition cost, plus capitalized interest on borrowings during the actual construction period of major capital projects. Also included in property, plant and equipment are certain direct costs related to the implementation of computer software for internal use. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets as follows:

Asset	Useful Life
Buildings and improvements:	
Improvements and previously existing structures	10 to 20 years
New structures	40 years
Machinery and equipment:	
Manufacturing plant equipment	5 to 20 years
Transportation equipment	3 to 8 years
Office equipment	3 to 10 years

We perform impairment tests when circumstances indicate that the carrying value may not be recoverable. Capitalized leases are amortized over the shorter of their lease term or their estimated useful lives and amortization expense is included in depreciation expense. Expenditures for repairs and maintenance, which do not improve or extend the life of the assets, are expensed as incurred.

Intangible and Other Assets Identifiable intangible assets with finite lives are amortized over their estimated useful lives as follows:

Asset	Useful Life
Customer relationships	Straight-line method over 5 to 15 years
Trademarks/trade names	Straight-line method over 10 to 20 years
Non-competition agreements	Straight-line method over the terms of the agreements
Deferred financing costs	Straight-line method over the terms of the related debt
Formulas/recipes	Straight-line method over 5 to 7 years

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TREEHOUSE FOODS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Indefinite lived trademarks and goodwill are evaluated for impairment annually in the fourth quarter or more frequently, if events or changes in circumstances indicate that the asset might be impaired. Indefinite lived trademarks and goodwill impairment is indicated when their book value exceeds fair value. If the fair value of an evaluated asset is less than its book value, the asset is written down to fair value, which is generally based on its discounted future cash flows.

Stock-Based Compensation We measure compensation expense for our equity awards at their grant date fair value. The resulting expense is recognized over the relevant service period.

Sales Recognition and Accounts Receivable Sales are recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, title and risk of loss transfer to customers and there is a reasonable assurance of collection of the sales proceeds. Product is shipped FOB shipping point and FOB destination, depending on our agreement with the customer. Sales are reduced by certain sales incentives, some of which are recorded by estimating expense based on our historical experience. We provide credit terms to customers ranging up to 30 days, perform ongoing credit evaluation of our customers and maintain allowances for potential credit losses based on historical experience. Estimated product returns, which have not been material, are deducted from sales at the time of shipment.

Income Taxes The provision for income taxes includes federal, foreign, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using enacted marginal tax rates. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period.

The Company has net operating loss and tax credit carry forwards available in certain jurisdictions to reduce future taxable income. Future tax benefits for net operating loss and tax credit carry forwards are recognized to the extent that realization of these benefits is considered more likely than not. This determination is based on the expectation that related operations will be sufficiently profitable or various tax, business and other planning strategies will enable us to utilize the operating loss and tax credit carry forwards. We cannot be assured that we will be able to realize these future tax benefits or that future valuation allowances will not be required. To the extent that available evidence raises doubt about the realization of a deferred income tax asset, a valuation allowance is established.

Foreign Currency Translation and Transactions The functional currency of the Company's foreign operations is the applicable local currency. The functional currency is translated into U.S. dollars for balance sheet accounts using currency exchange rates in effect as of the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate during the fiscal year. The translation adjustments are deferred as a separate component of stockholders' equity, captioned accumulated other comprehensive loss. Gains or losses resulting from transactions denominated in foreign currencies are included in Other (income) expense, in the Consolidated Statements of Income.

Shipping and Handling Fees Our shipping and handling costs are included in both cost of sales and selling and distribution expense, depending on the nature of such costs. Shipping and handling costs included in cost of sales reflect inventory warehouse costs, product loading and handling costs, and costs associated with transporting finished products from our manufacturing facilities to distribution warehouses. Shipping and handling costs included in selling

and distribution expense consist primarily of the cost of shipping products to customers through third party carriers. Shipping and handling costs recorded as a component of selling and distribution expense were approximately \$46.5 million, \$60.2 million and \$48.1 million, for years ended 2009, 2008 and 2007, respectively.

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TREEHOUSE FOODS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Financial Instruments From time to time, we utilize derivative financial instruments including interest rate swaps, foreign currency contracts and forward purchase contracts to manage our exposure to interest rate, foreign currency and commodity price risks. We do not hold or issue financial instruments for speculative or trading purposes. The Company accounts for its derivative instruments as either assets or liabilities and carries them at fair value. Derivatives that are not designated as hedges according to GAAP must be adjusted to fair value through earnings. For derivative instruments that are designated as cash flow hedges, the effective portion of the gain or loss is reported as accumulated other comprehensive income and reclassified into earnings in the same period when the hedged transaction affects earnings. The ineffective gain or loss is recognized in current earnings. For further information about our derivative instruments see Note 19.

Capital Lease Obligations Capital lease obligations represent machinery and equipment financing obligations, which are payable in monthly installments of principal and interest and are collateralized by the related assets financed.

Insurance Accruals We retain selected levels of property and casualty risks, primarily related to employee health care, workers' compensation claims and other casualty losses. Many of these potential losses are covered under conventional insurance programs with third party carriers having high deductible limits. In other areas, we are self-insured with stop-loss coverage. Accrued liabilities for incurred but not reported losses related to these retained risks are calculated based upon loss development factors which contemplate a number of factors, including claims history and expected trends. These accruals are developed by us in consultation with external insurance brokers and actuaries.

Facility Closing and Reorganization Costs We periodically record facility closing and reorganization charges, when we have identified a facility for closure or other reorganization opportunity, developed a plan and notified the affected employees.

Research and Development Costs We record research and development charges to expense as they are incurred. The expenditures totaled \$8.3 million, \$6.9 million and \$4.8 million, for years ended 2009, 2008 and 2007, respectively.

Advertising Costs Advertising costs are expensed as incurred and reported in the selling and distribution line of our Consolidated Statements of Income.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued an accounting pronouncement which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of the pronouncement are effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued another accounting pronouncement, which delayed the initial effective date for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The adoption of the provisions of these pronouncements did not significantly impact our consolidated financial statements.

In December 2007, the FASB issued an accounting pronouncement on business combinations. The provisions of this pronouncement establish principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest acquired and the

goodwill acquired. The pronouncement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination, and applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will apply the provisions of this pronouncement for all future acquisitions.

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TREEHOUSE FOODS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2007, the FASB issued an accounting pronouncement on non-controlling interests in consolidated financial statements. The provisions of this pronouncement outline the accounting and reporting for ownership interests in a subsidiary held by parties other than the parent and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. This pronouncement is to be applied prospectively as of the beginning of the fiscal year in which it is initially adopted, except for the presentation and disclosure requirements, which are to be applied retrospectively for all periods presented. The adoption of this pronouncement did not have an impact on our consolidated financial statements.

In March 2008, the FASB issued an accounting pronouncement regarding disclosures about derivative instruments and hedging activities, which requires increased qualitative, and credit-risk disclosures. This pronouncement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Further, entities are encouraged, but not required to provide comparative disclosures for earlier periods. We adopted the provisions of this pronouncement beginning January 1, 2009 and have provided the required disclosures beginning with our first quarterly report on Form 10-Q in 2009.

On December 30, 2008, the FASB issued an accounting pronouncement regarding employers' disclosures about postretirement benefits. This pronouncement is effective for fiscal years ending after December 15, 2009. This pronouncement does not change current accounting methods, but requires disclosure about investment policies and strategies, the fair value of each major category of plan assets, the methods and inputs used to develop fair value measurements of plan assets, and concentrations of credit risk. The Company has provided the required disclosure in its 2009 Form 10-K.

In April 2009, the FASB issued an accounting pronouncement regarding interim disclosures about the fair value of financial instruments. This pronouncement requires disclosures about the fair value of financial instruments in financial statements for interim reporting periods and in annual financial statements of publicly-traded companies. This pronouncement also requires entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments in financial statements on an interim and annual basis and to highlight any changes from prior periods. The effective date for this pronouncement is interim and annual periods ending after June 15, 2009. We have complied with the disclosure provisions of this pronouncement.

In May 2009, the FASB issued an accounting pronouncement regarding subsequent events, which establishes general standards of accounting for, and requires disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This pronouncement is effective for fiscal years and interim periods ended after June 15, 2009. We adopted the provisions of this pronouncement for the quarter ended June 30, 2009. The adoption of these provisions did not have a material effect on our consolidated financial statements.

In June 2009, the FASB issued an accounting pronouncement regarding consolidation guidance for variable interest entities (VIE) that is effective beginning January 1, 2010. The Company does not expect this pronouncement to significantly impact our consolidated financial statements.

In June 2009, the FASB issued an accounting pronouncement regarding the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. This pronouncement establishes the FASB Accounting Standards Codification (the Codification) as the single source of authoritative, nongovernmental

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U.S. GAAP. The Codification is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. All U.S. GAAP accounting literature is now known as the Accounting Standard Codification (ASC) and updates to the Codification are now issued as Accounting Standards Updates (ASU). As the Codification was not intended to change or alter existing U.S. GAAP, it did not have any impact on our consolidated financial statements.

In August 2009, the FASB issued ASU 2009-5 which provides additional guidance on measuring the fair value of liabilities under ASC 820 Fair Value Measurements and Disclosures. ASU 2009-5 clarifies that the

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

quoted price for the identical liability, when traded as an asset in an active market, is also a Level 1 measurement for that liability when no adjustment to the quoted price is required. This pronouncement also requires that the fair value of a liability is measured using one or more of the following techniques when a quoted price in an active market for the identical liability is not available, (1) a valuation technique that uses the quoted price for the identical liability when traded as an asset, (2) quoted prices for similar liabilities or similar liabilities when traded as assets, or (3) another valuation technique consistent with the guidance in ASC 820, for example, an income approach such as a present value technique. The adoption of ASU 2009-5 did not significantly impact the consolidated financial statements.

3. FACILITY CLOSINGS

On February 13, 2008, the Company announced plans to close its pickle plant in Portland, Oregon. The Portland plant was the Company's highest cost and least utilized pickle facility. Operations in the plant ceased during the second quarter of 2008. For the twelve months ended December 31, 2009, and 2008, the Company recorded costs of \$0.9 million and \$12.8 million, respectively, that are included in Other operating (income) expense in our Consolidated Statements of Income. There are no accrued expenses related to this closure as of December 31, 2009, and insignificant accrued expenses as of December 31, 2008. In connection with the Portland closure, the Company has \$4.1 million of assets held for sale, which are primarily land and buildings. The Company will continue to incur executory costs for this facility until it is sold. Those costs total approximately \$0.8 million per year.

On November 3, 2008, the Company announced plans to close its salad dressings manufacturing plant in Cambridge, Ontario. Manufacturing operations in Cambridge ceased at the end of June 2009. Production has been transitioned to the Company's other manufacturing facilities in Canada and the United States. The change results in the Company's production capabilities being more aligned with the needs of our customers. The majority of the closure costs were included as costs of the acquisition of E.D. Smith and are not expected to significantly impact earnings. Total costs are expected to be approximately \$2.5 million, including severance costs of \$1.4 million, and other costs of \$1.1 million. As of December 31, 2009, the Company had remaining accruals of approximately \$0.5 million for severance. The Company expects payments to be completed by the end of 2010, with all payments expected to be funded with cash from operations. Severance payments during the twelve months ended December 31, 2009 were approximately \$0.9 million.

4. INVENTORIES

	December 31,	
	2009	2008
	(In thousands)	
Raw materials and supplies	\$ 86,223	\$ 82,869
Finished goods	197,539	181,311
LIFO reserve	(18,829)	(18,390)
Total	\$ 264,933	\$ 245,790

Approximately \$98.7 million and \$83.0 million of our inventory was accounted for under the LIFO method of accounting at December 31, 2009 and 2008, respectively. The LIFO reserve reflects the excess of the current cost of LIFO inventories at December 31, 2009 and 2008, over the amount at which these inventories were valued on the consolidated balance sheets. During 2008, we incurred a LIFO inventory liquidation that reduced our cost of sales and increased pre-tax income by \$3.1 million.

Table of Contents**TREEHOUSE FOODS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. PROPERTY, PLANT AND EQUIPMENT**

	December 31,	
	2009	2008
	(In thousands)	
Land	\$ 11,335	\$ 7,341
Buildings and improvements	99,856	85,361
Machinery and equipment	310,265	267,856
Construction in progress	6,778	30,041
Total	428,234	390,599
Less accumulated depreciation	(152,201)	(119,935)
Property, plant and equipment, net	\$ 276,033	\$ 270,664

6. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the years ended December 31, 2009 and 2008, are as follows:

	North American	Food Away From Home	Industrial and Export	Total
	Retail Grocery	(In thousands)		
Balance at December 31, 2007	\$ 370,688	\$ 86,521	\$ 133,582	\$ 590,791
Purchase price adjustment	(145)	(13)		(158)
Foreign currency exchange adjustment	(26,892)	(2,867)		(29,759)
Balance at December 31, 2008	343,651	83,641	133,582	560,874
Reversal of certain reserves related to the consolidation of operations expected at the time of the acquisition of E.D. Smith	(4,914)			(4,914)
Foreign currency exchange adjustment	17,188	1,859		19,047
Balance at December 31, 2009	\$ 355,925	\$ 85,500	\$ 133,582	\$ 575,007

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

Approximately \$212.9 million of goodwill is deductible for tax purposes.

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

The gross carrying amount and accumulated amortization of our intangible assets other than goodwill as of December 31, 2009 and 2008 are as follows:

	December 31,					
	2009		2008			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Intangible assets with indefinite lives:						
Trademarks	\$ 31,422	\$	\$ 31,422	\$ 27,824	\$	\$ 27,824
Intangible assets with finite lives:						
Customer-related	147,346	(35,400)	111,946	137,693	(23,430)	114,263
Non-compete agreements	2,620	(2,162)	458	2,620	(1,422)	1,198
Trademarks	10,010	(2,311)	7,699	17,610	(1,385)	16,225
Formulas/recipes	1,762	(761)	1,001	1,583	(378)	1,205
Total other intangibles	\$ 193,160	\$ (40,634)	\$ 152,526	\$ 187,330	\$ (26,615)	\$ 160,715

As of December 31, 2009, the weighted average remaining useful life for the amortizable intangible assets are (1) customer related at 11.1 years, (2) non-compete agreements at 0.8 years, (3) trademarks at 14.8 years and (4) formulas/recipes at 3.0 years. The weighted average remaining useful life in total for all amortizable intangible assets is 11.2 years as of December 31, 2009.

Amortization expense on intangible assets was \$13.4 million, \$13.5 million and \$7.2 million, for the years ended December 31, 2009, 2008 and 2007, respectively. Estimated intangible asset amortization expense for the next five years is as follows:

	(In thousands)
2010	\$ 13,038
2011	\$ 11,146
2012	\$ 10,817
2013	\$ 10,463
2014	\$ 10,443

Indefinite lived trademarks and goodwill are evaluated for impairment annually in the fourth quarter or more frequently, if events or changes in circumstances indicate that the asset might be impaired. Indefinite lived trademarks

are impaired and goodwill impairment is indicated when their book value exceeds fair value. If the fair value of an evaluated asset is less than its book value, the asset is written down to fair value, which is generally based on its discounted future cash flows.

Amortizable intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is generally based on discounted future cash flows.

Our 2009 impairment review, using a discounted cash flow analysis, resulted in the impairment of the *Nature's Goodness*[®] amortizable infant feeding trademark as we focus on our private label opportunities in retail baby food. The remaining balance of approximately \$7.6 million was written off as of December 31, 2009 and is included in Other operating (income) expense in our Consolidated Statements of Income. *Nature's Goodness*[®] is a part of the North American Retail Grocery segment. The circumstances resulting in the full

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

impairment of the remaining value occurred during the fourth quarter of 2009. No other impairment was identified during our 2009 analysis.

During our 2008 impairment review, we determined that the *Steinfeld*® pickle trademark, *Nature's Goodness*® infant feeding trademark and *San Antonio Farms*® salsa trademarks can no longer be classified as indefinite lived, and we began amortizing their remaining balance over their expected remaining useful life of 10, 20 and 10 years, respectively, in 2009. Our review resulted in an impairment expense of approximately \$0.6 million related to our *San Antonio Farms*® trademark and is recorded within the Other operating (income) expense line of our Consolidated Statements of Income, and pertains to the North American Retail Grocery segment.

During our 2007 impairment review, we determined that the *Farman*® pickle trademark can no longer be classified as indefinite lived, and we are amortizing the remaining balance over the expected remaining useful life of 20 years. Our review did not result in impairment. Amortization of this trademark began in 2008.

Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans.

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2009	2008
	(In thousands)	
Accounts payable	\$ 79,438	\$ 135,502
Payroll and benefits	29,921	15,208
Insurance(1)		9,555
Interest and taxes	12,015	4,670
Health insurance, workers' compensation and other insurance costs	4,837	4,143
Marketing expenses	10,558	4,694
Other accrued liabilities	12,050	14,023
Total	\$ 148,819	\$ 187,795

(1) See Note 15 Insurance Claim - New Hampton.

8. INCOME TAXES

Components of Income from continuing operations, before income taxes are as follows:

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Domestic source	\$ 125,413	\$ 35,966	\$ 71,106
Foreign source	(3,339)	3,489	(4,581)
Income from continuing operations, before income tax	\$ 122,074	\$ 39,455	\$ 66,525

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

The following table presents the components of the 2009, 2008 and 2007 provision for income taxes:

	Year Ended December 31,		
	2009	2008(1)	2007(1)
	(In thousands)		
Current:			
Federal	\$ 20,654	\$ 3,858	\$ 15,072
State	4,101	1,546	3,300
Foreign	(2,591)	177	561
Total current	22,164	5,581	18,933
Deferred:			
Federal	13,577	3,665	7,462
State	1,956	350	1,377
Foreign	3,063	1,299	(2,899)
Total deferred	18,596	5,314	5,940
Total income tax expense	\$ 40,760	\$ 10,895	\$ 24,873

(1) Excludes, \$(0.2) million and \$(0.02) million income tax benefit related to discontinued operations in 2008 and 2007, respectively.

The following is a reconciliation of income tax expense computed at the U.S. federal statutory tax rate to the income tax expense reported in the Consolidated Statements of Income:

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Tax at statutory rate	\$ 42,726	\$ 13,809	\$ 23,285
State income taxes	3,937	1,233	3,041
Tax benefit of cross-border intercompany financing structure	(4,831)	(4,762)	
Reduction of enacted tax rates on deferred tax liabilities (Canada)	(2,155)		(1,359)
Other, net	1,083	615	(94)
Total provision for income taxes	\$ 40,760	\$ 10,895	\$ 24,873

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

The tax effects of temporary differences giving rise to deferred income tax assets and liabilities were:

	December 31,	
	2009	2008
	(In thousands)	
Deferred tax assets:		
Pension and postretirement benefits	\$ 5,116	\$ 5,688
Accrued liabilities	11,235	11,141
Loss and credit carry forwards	1,332	6,315
Stock compensation	22,191	20,783
Unrealized foreign exchange loss	395	3,202
Unrealized loss on interest swap	1,894	2,676
Total deferred tax assets	42,163	49,805
Deferred tax liabilities:		
Depreciation and amortization	(82,214)	(68,354)
Asset valuation reserves	(1,933)	(2,167)
Total deferred tax liabilities	(84,147)	(70,521)
Net deferred income tax asset liability	\$ (41,984)	\$ (20,716)

Classification of net deferred tax assets (liabilities) in the Consolidated Balance Sheets is as follows:

	December 31,	
	2009	2008
	(In thousands)	
Current assets	\$ 3,397	\$ 6,769
Non-current liabilities	(45,381)	(27,485)
Total net deferred tax liabilities	\$ (41,984)	\$ (20,716)

No valuation allowance has been provided on deferred tax assets as management believes it is more likely than not that the deferred income tax assets will be fully recoverable.

We had the following tax loss and tax credit carry forwards as of December 31, 2009:

	Amount	Years of	
	(In thousands)	Expiration:	
		Beginning	Ending
U.S. federal loss carry forwards	\$ 1,855	2025	2026
U.S. state loss carry forwards	2,813	2014	2026
Foreign credit carry forwards	490	2011	2025
 Total carry forwards	 \$ 5,158		

All of these tax loss and tax credit carry forwards are associated with the 2007 acquisition of E.D. Smith. The U.S. federal and state losses are subject to limitation under Section 382 of the Internal Revenue Code. Management has considered all available evidence regarding the likelihood of the ultimate realization of the deferred income tax assets recorded at December 31, 2009 and December 31, 2008, respectively, by jurisdiction. Based upon all available evidence, the Company has concluded that, it is more likely than not, it will realize the deferred income tax assets by jurisdiction at December 31, 2009 and December 31, 2008, respectively. Therefore, the

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

Company has not recorded a valuation allowance against the deferred income tax assets at December 31, 2009 and December 31, 2008, respectively.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, Canada and various state jurisdictions. The Company settled the Internal Revenue Service (IRS) examination of its 2007 federal income tax return in the first quarter of 2010. The exam resulted in a small refund to the Company. The Company has various state tax examinations in process, which are expected to be completed in 2010. The outcome of the various state tax examinations is unknown at this time.

E.D. Smith and its affiliates are subject to Canadian, U.S. and state tax examinations from 2005 forward. The IRS completed an examination of E.D. Smith's U.S. affiliates tax return for 2005 during the first quarter of 2009. An insignificant tax adjustment was paid to settle the examination. The Canada Revenue Agency (CRA) initiated an income tax audit for the E.D. Smith 2006 and 2007 tax years. The Company expects this audit to conclude during the first quarter of 2010. The outcome of this audit is unknown at this time.

During the year, the Company recorded adjustments to its unrecognized tax benefits. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Year Ended December 31,	
	2009	2008
	(In thousands)	
Unrecognized tax benefits beginning balance	\$ 1,995	\$ 1,769
Additions based on tax positions related to the current year	1,535	212
Additions based on tax positions of prior years	227	654
Reductions for tax positions of prior years	(529)	(118)
Foreign currency translation	146	(215)
Payments	(187)	(307)
Unrecognized tax benefits ending balance	\$ 3,187	\$ 1,995

At December 31, 2009, the Company does not anticipate any significant adjustments to its unrecognized tax benefits caused by the settlement of the ongoing tax examinations detailed above or other factors within the next twelve months. Unrecognized tax benefits are included in Other long-term liabilities in our Consolidated Balance Sheets.

Included in the balance at December 31, 2009 are amounts that are offset by deferred taxes (i.e., temporary differences) or amounts that would be offset by refunds in other taxing jurisdictions (i.e., corollary adjustments). Thus, only \$1.9 million and \$815 thousand of the amount accrued at December 31, 2009 and December 31, 2008, respectively, would impact the effective tax rate, if reversed.

The Company recognizes interest expense and penalties related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2009, 2008 and 2007, the Company recognized \$0.1 million, \$0.2 million and

\$0.1 million in interest and penalties in income tax expense, respectively. The Company has accrued approximately \$0.6 million and \$0.5 million for the payment of interest and penalties at December 31, 2009 and 2008, respectively.

The Company considers its investment in E.D. Smith to be permanent and therefore, the Company has not provided U.S. income taxes on the earnings of E.D. Smith or the translation of its financial statements into U.S. dollars. A provision has not been established because it is our present intention to reinvest the E.D. Smith undistributed earnings indefinitely in Canada. The undistributed earnings as of December 31, 2009 were \$12.3 million. The determination of the amount of unrecognized U.S. federal income tax liabilities for the E.D. Smith unremitted earnings at December 31, 2009 is not practical at this time.

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

During the first quarter of 2008, the Company entered into an intercompany financing structure that results in the recognition of foreign earnings subject to a low effective tax rate. As the foreign earnings are permanently reinvested, U.S. income taxes have not been provided. For the years ended December 31, 2009 and 2008, the Company recognized a tax benefit of approximately \$6.0 million and \$5.3 million, respectively, related to this item.

9. LONG-TERM DEBT

	December 31,	
	2009	2008
	Amount	Amount
	Outstanding	Outstanding
	(In thousands)	
Revolving credit facility	\$ 298,200	\$ 372,000
Senior notes	100,000	100,000
Tax increment financing and other debt	4,346	3,708
Total outstanding debt	402,546	475,708
Less current portion	(906)	(475)
Total long-term debt	\$ 401,640	\$ 475,233

The scheduled maturities of outstanding debt, at December 31, 2009, are as follows (in thousands):

2010	\$ 906
2011	298,545
2012	556
2013	100,591
2014	345
Thereafter	1,603
Total outstanding debt	\$ 402,546

Revolving Credit Facility On August 30, 2007, the Company entered into Amendment No. 2 of our unsecured revolving Credit Agreement, as amended (the "Credit Agreement"), dated June 27, 2005, with a group of participating financial institutions. Among other things, Amendment No. 2 reduced the available liquidity requirement with respect to permitted acquisitions and reduced the required consolidated interest coverage ratio at the end of each fiscal quarter. The Company also exercised its option under the Credit Agreement to increase the aggregate commitments under the revolving credit facility from \$500 million to \$600 million. The Credit Agreement also provides for a \$75 million letter of credit sublimit, against which \$8.8 million and \$8.6 million in letters of credit have been issued but undrawn

as of December 31, 2009 and 2008, respectively. Proceeds from the credit facility may be used for working capital and general corporate purposes, including acquisition financing. The credit facility contains various financial and other restrictive covenants and requires that we maintain certain financial ratios, including a leverage and interest coverage ratio. We are in compliance with all applicable covenants as of December 31, 2009. The Credit Agreement expires August 31, 2011. As of December 31, 2009, available funds under this facility totaled \$293.0 million.

Interest is payable quarterly or at the end of the applicable interest period in arrears on any outstanding borrowings at a customary Eurodollar rate plus the applicable margin, or at a customary base rate. The underlying rate is defined as the rate equal to the British Bankers Association LIBOR Rate for Eurodollar Rate Loans, or the higher of the prime lending rate of the administrative agent or federal funds rate plus 0.5% for Base Rate Committed Loans. The applicable margin for Eurodollar loans is based on our consolidated

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TREEHOUSE FOODS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

leverage ratio and ranges from 0.295% to 0.90%. In addition, a facility fee based on our consolidated leverage ratio and ranging from 0.08% to 0.225% is due quarterly on the aggregate commitment under the credit facility. Our average interest rate on debt outstanding under our Credit Agreement at December 31, 2009 was 0.91%. Including the swap agreement (see below) with a fixed rate of 2.9%, the average rate increases to 2.75% at December 31, 2009.

The credit facility contains limitations on liens, investments, the incurrence of subsidiary indebtedness, mergers, dispositions of assets, acquisitions, material lines of business and transactions with affiliates. The credit facility restricts certain payments, including dividends, and prohibits certain agreements restricting the ability of our subsidiaries to make certain payments or to guarantee our obligations under the credit facility. The credit facility contains standard default triggers, including without limitation:

failure to pay principal, interest or other amounts due and payable under the credit facility and related loan documents,

failure to maintain compliance with the financial and other covenants contained in the credit agreement,

incorrect or misleading representations or warranties,

default on certain of our other debt,

the existence of bankruptcy or insolvency proceedings,

insolvency,

existence of certain material judgments,

failure to maintain compliance with ERISA,

the invalidity of certain provisions in any loan document, and

a change of control.

Senior Notes On September 22, 2006, we completed a private placement of \$100 million in aggregate principal of 6.03% senior notes due September 30, 2013, pursuant to a Note Purchase Agreement among the Company and a group of purchasers. All of the Company's obligations under the senior notes are fully and unconditionally guaranteed by Bay Valley Foods, LLC, a wholly-owned subsidiary of the Company. The senior notes have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States, absent registration or an applicable exemption. Net proceeds were used to repay outstanding indebtedness under the revolving Credit Agreement. Interest is paid semi-annually in arrears on March 31 and September 30 of each year. As of December 31, 2007, the Company exceeded the permitted leverage ratio of 3.5 to 1.0 requiring an additional interest payment of 1.0% per annum in 2008. The maximum permitted leverage ratio is 4.0 to 1.0, therefore, the Company was in compliance with the covenants of the Note Purchase Agreement. The Company's leverage ratio was under 3.5 to 1.0 at December 31, 2008 and, therefore, the Company did not pay additional interest of 1.0% in 2009.

The Note Purchase Agreement contains covenants that limit the ability of the Company and its subsidiaries to, among other things, merge with other entities, change the nature of the business, create liens, incur additional indebtedness or sell assets. The Note Purchase Agreement also requires the Company to maintain certain financial ratios. We are in compliance with the applicable covenants as of December 31, 2009. Events of default include, but are not limited to:

failure to pay principal or interest,

breach of the Company's covenants or warranties,

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TREEHOUSE FOODS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

any payment default or acceleration of indebtedness of the Company or any subsidiary, if the total amount of such indebtedness exceeds \$25 million, and

events of bankruptcy, insolvency or liquidation involving the Company or its material subsidiaries.

Swap Agreements The Company entered into a \$200 million long term interest rate swap agreement with an effective date of November 19, 2008 to lock into a fixed LIBOR interest rate base. Under the terms of agreement, \$200 million in floating rate debt was swapped for a fixed 2.9% interest base rate for a period of 24 months, amortizing to \$50 million for an additional nine months at the same 2.9% interest rate. Under the terms of the Company's revolving credit agreement and in conjunction with our credit spread, this will result in an all-in borrowing cost on the swapped principal being no more than 3.8% during the life of the swap agreement. The Company did not apply hedge accounting to this swap.

In July 2006, the Company entered into a forward interest rate swap transaction for a notional amount of \$100 million, as a hedge of the forecasted private placement of \$100 million senior notes. The interest rate swap transaction was terminated on August 31, 2006, which resulted in a pre-tax loss of \$1.8 million. The unamortized loss is reflected, net of tax, in Accumulated Other Comprehensive Loss in the Balance Sheet. The total loss will be reclassified ratably to the Consolidated Statements of Income as an increase to interest expense over the term of the senior notes, providing an effective interest rate of 6.29% over the term of the senior notes. In 2009, 2008 and 2007, \$0.3 million of the loss was taken into interest expense. We anticipate that \$0.3 million of the loss will be reclassified to interest expense in 2010.

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 December 31, 2009, \$2.7 million remains outstanding. Interest accrues at an annual rate of 6.61% for the \$0.4 million tranche which is due on November 1, 2011; 6.71% for the \$0.4 million tranche which is due on November 1, 2013; and 7.16% for the \$1.9 million tranche which is due on May 1, 2019.

Capital Lease Obligations and Other Capital lease obligations represent machinery and equipment financing obligations, which are payable in monthly installments of principal and interest and are collateralized by the related assets financed.

10. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

Common stock The Company has authorized 90 million shares of common stock with a par value of \$0.01 per share and 10 million shares of preferred stock with a par value of \$0.01 per share. No preferred stock has been issued.

As of December 31, 2009, there were 31,998,921 common shares issued and outstanding. There is no treasury stock.

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 outstanding options, restricted stock, restricted stock units and performance units.

Certain restricted stock and restricted stock units are subject to market conditions for vesting. The market conditions of the restricted stock awards were met only in the first quarter of 2009, and thus are included in the year to date calculation of diluted earnings per share. These awards continue to remain outstanding as of

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December 31, 2009. The market conditions for the restricted stock units were met during the third quarter of 2009 and they became vested. Prior to vesting, the restricted stock units did not meet the criteria for inclusion in the calculation of diluted earnings per share during 2009 and thus were excluded. During 2008 and 2007, the market conditions of these awards were not met and they were excluded from the calculation of diluted earnings per share.

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:

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Weighted average common shares outstanding	31,982	31,341	31,203
Assumed exercise of stock options(1)	383	96	148
Assumed vesting of restricted stock, restricted stock units and performance units(1)	433	32	
Weighted average diluted common shares outstanding	32,798	31,469	31,351

- (1) Stock options, restricted stock, restricted stock units, and performance units excluded from our computation of diluted earnings per share, because they were anti-dilutive, were 29 thousand, 2.2 million and 2.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

11. STOCK-BASED COMPENSATION

The Board adopted and the stockholders approved the TreeHouse Foods, Inc. 2005 Long-Term Incentive Plan. The Plan was amended and restated as the TreeHouse Foods, Inc. Equity and Incentive Plan on February 16, 2007. 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 below the position of senior vice president (or any analogous title), and 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 extent of, 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 equity-based compensation, including stock options, restricted stock, restricted stock units, performance shares and performance units and other types of stock-based awards, and other cash-based compensation. The maximum number of shares that are available to be awarded under the Plan is approximately 6.0 million, of which 0.1 million remain available.

Income from continuing operations before tax, for the years ended December 31, 2009, 2008 and 2007 included share-based compensation expense for employee and director stock options, restricted stock, restricted stock units and

performance units of \$13.3 million, \$12.2 million and \$13.6 million, respectively. The tax benefit recognized related to the compensation cost of these share-based awards was approximately \$5.1 million, \$4.6 million and \$5.3 million for 2009, 2008 and 2007, respectively.

The Company has estimated that certain employees and all our directors will complete the required service conditions associated with certain restricted stock, restricted stock units, stock options and performance unit awards. For all other employees, the Company estimates forfeitures, as not all employees are expected to complete the required service conditions. The expected service period is the longer of the derived service period, as determined from the output of the valuation models, and the service period based on the term of the awards.

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

Options were granted under our long-term incentive plan and in certain cases pursuant to employment agreements. Options were also granted to our non-employee directors. All options granted have three year terms which vest one-third on each of the first three anniversaries of the grant date, and a maximum term of ten years.

The following table summarizes stock option activity during 2009:

	Employee	Director	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
	Options	Options			
Outstanding, December 31, 2008	2,485,937	126,117	\$ 27.21	7.4	\$ 3,394,930
Granted	2,400		\$ 26.69		
Forfeited	(18,787)		\$ 25.53		
Exercised	(176,806)	(18,344)	\$ 26.48		
Outstanding, December 31, 2009	2,292,744	107,773	\$ 27.28	6.4	\$ 27,792,212
Vested/expect to vest, at December 31, 2009	2,253,235	107,773	\$ 27.32	6.4	\$ 27,256,715
Exercisable, December 31, 2009	1,870,242	93,637	\$ 27.82	6.1	\$ 21,682,591

During the years ended December 31, 2009, 2008 and 2007, the total intrinsic value of stock options exercised was approximately \$1.9 million, \$3.8 million and \$5.0 thousand, respectively. The tax benefit recognized from stock option exercises in 2009, 2008 and 2007 was approximately \$0.7 million, \$1.4 million and \$2.0 thousand, respectively. Compensation expense related to unvested options totaled \$2.2 million at December 31, 2009 and will be recognized over the remaining vesting period of the grants, which averages 1.3 years. The average grant date fair value of options granted, in 2009, 2008 and 2007 was \$8.97, \$8.09 and \$9.23, respectively.

In addition to stock options, certain key management employees were granted restricted stock and restricted stock units, pursuant to the terms of their employment agreements. These restricted shares vest one-third each January, and are subject to a market condition that requires that the total stockholder return of TreeHouse equal or exceed the median of a peer group of 22 companies for the applicable vesting period. In addition, there is a cumulative test at January 31, 2007 through 2010 that allows for vesting of previously unvested grants, if the total stockholder return test is met on a cumulative basis. Subsequent to June 27, 2008, all the restricted stock units may vest on any date where the Company's stock price exceeds \$29.65 for a 20 trading day period. TreeHouse issued 630,942 shares of restricted stock and 616,802 restricted stock units in the second quarter of 2005 pursuant to employment agreements, and 43,000 shares of restricted stock in the first quarter of 2007 that are also subject to the total stockholder return of TreeHouse as compared to its peer group as described above. During 2009, the market condition of the restricted stock

units was satisfied. Issuance of the shares related to the units was deferred pursuant to the deferral elections of the participants. The market conditions of the restricted stock have not been met and the awards remain outstanding.

During 2008, the Company began issuing restricted stock and restricted stock units to non-employee directors and a larger pool of employees. Generally these restricted stock and restricted stock unit awards vest based on the passage of time. Awards granted to employees generally vest one-third on each anniversary of the grant date. Additionally, certain restricted stock awards issued to our executives are subject to a performance condition that requires operating income for the previous twelve months to be greater than \$0. This condition may be satisfied on a yearly or cumulative basis over three years. Restricted stock units granted to our non-employee directors in 2008 vest over one year and those granted in 2009 vest over thirteen months.

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

The fair value of these awards is equal to the closing price of our stock on the date of grant. The following table summarizes the restricted stock and restricted stock unit activity during 2009:

	Employee Restricted Stock	Weighted Average Grant Date Fair Value	Employee Restricted Stock Units	Weighted Average Grant Date Fair Value	Director Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding, at December 31, 2008	1,412,322	\$ 24.15	598,939	\$ 25.28	22,200	\$ 24.06
Granted	59,340	\$ 26.36	192,400	\$ 28.84	26,900	\$ 28.95
Vested	(260,776)	\$ 24.06	(4,788)	\$ 24.17	(3,700)	\$ 24.06
Forfeited	(8,567)	\$ 24.82	(1,620)	\$ 27.75		
Outstanding, at December 31, 2009	1,202,319	\$ 24.28	784,931	\$ 26.16	45,400	\$ 26.96

Compensation expense for all restricted stock and restricted stock units totaled \$8.0 million in 2009, \$6.4 million in 2008, and \$7.0 million in 2007.

Future compensation cost for restricted stock and restricted stock units is approximately \$14.5 million as of December 31, 2009, and will be recognized on a weighted average basis, over the next 1.8 years.

Performance unit awards have been granted to certain members of management. These awards contain service and performance conditions. For each performance period, 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 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. The Company expects that 200% of all the awards will accrue and vest over the cumulative performance and service period, subject to estimated forfeitures. The following table summarizes the performance unit activity during the twelve months ended December 31, 2009:

	Performance Units	Weighted Average Grant Date Fair Value
Unvested, at December 31, 2008	72,900	\$ 24.06

Granted	54,900	\$ 28.92
Vested		
Forfeited		
Unvested, at December 31, 2009	127,800	\$ 26.15

Future compensation cost related to the performance units is estimated to be approximately \$4.0 million as of December 31, 2009, and is expected to be recognized over the next 2.0 years. The future compensation accrual is based on the assumption that 200% of the award will vest. The grant date fair value of the awards granted in 2009 was equal to the Company's closing stock price on the grant date.

The fair value of stock options, restricted stock, restricted stock unit awards and performance units (the Awards) is determined on the date of grant using the assumptions noted in the following table or the market price of the Company's stock on the date of grant. Stock options were valued using a Black Scholes model and certain restricted stock and restricted stock units were valued using a Monte Carlo simulation. Performance units and all other restricted stock and restricted stock unit awards were valued using the closing price of the Company's stock on the date of grant. As the Company's stock was not publicly traded prior to

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

June 27, 2005, expected volatilities are based on the implied historical volatilities from peer companies and other factors. The risk-free interest rate for periods within the contractual life of the Awards is based on the U.S. Treasury yield curve in effect at the time of the grant. As the Company began operations in 2005, we do not have significant history to determine the expected term of our awards based on our experience alone. As such, we based our expected term on that of comparable companies. The assumptions used to calculate the value of the option awards granted in 2009, 2008 and 2007 and the restricted stock awards granted in 2007 are presented as follows:

2009	Stock Options	Restricted Stock	Restricted Stock Units
Expected volatility	26.37%		
Expected dividends			
Expected term	6.0 years		
Risk-free interest rate	3.53%		
2008	Stock Options	Restricted Stock	Restricted Stock Units
Expected volatility	26.37%		
Expected dividends			
Expected term	6.0 years		
Risk-free interest rate	3.53%		
2007	Stock Options	Restricted Stock	Restricted Stock Units
Expected volatility	22.61%	35.6%	
Expected dividends			
Expected term	6.0 years	1.58 years	
Risk-free interest rate	5.00%	4.74%	

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

Foreign Currency Translation(1)	Unrecognized Pension and Postretirement Benefits	Derivative Financial Instrument	Accumulated Other Comprehensive Loss
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(In thousands)

Balance at December 31, 2006	\$	\$	(4,030)	\$	(1,075)	\$	(5,105)	
Other comprehensive (loss) gain		(3,325)	1,172		161		(1,992)	
Balance at December 31, 2007		(3,325)	(2,858)		(914)		(7,097)	
Other comprehensive (loss) gain		(50,198)	(6,261)		162		(56,297)	
Balance at December 31, 2008		(53,523)	(9,119)		(752)		(63,394)	
Other comprehensive gain		35,678	604		161		36,443	
Balance at December 31, 2009	\$	(17,845)	\$	(8,515)	\$	(591)	\$	(26,951)

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

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TREEHOUSE FOODS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. EMPLOYEE PENSION AND RETIREMENT BENEFIT PLANS

Pension and Postretirement Benefits Certain of our employees and retirees participate in pension and other postretirement benefit plans. Employee benefit plan obligations and expenses included in the 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.

Defined Contribution Plans Certain of our non-union employees participate in savings and profit sharing plans. These plans generally provide for salary reduction contributions to the plans on behalf of the participants of between 1% and 20% of a participant's annual compensation and provide for employer matching and profit sharing contributions. The Company established a tax-qualified defined contribution plan to manage the assets. For 2009, 2008 and 2007, the Company made matching contributions to the plan of \$2.9 million, \$2.8 million and \$2.0 million, respectively.

Multiemployer Pension and Certain Union Plans The Company contributes to several multiemployer pension plans on behalf of employees covered by collective bargaining agreements. These plans are administered jointly by management and union representatives and cover substantially all full-time and certain part-time union employees who are not covered by other plans. The Multiemployer Pension Plan Amendments Act of 1980 amended ERISA to establish funding requirements and obligations for employers participating in multiemployer plans, principally related to employer withdrawal from or termination of such plans. We could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans. At this time, we have not established any liabilities because withdrawal from these plans is not probable. In 2009, 2008 and 2007, the contributions to these plans, which are expensed as incurred, were \$1.5 million, \$1.7 million and \$1.8 million, respectively.

Defined Benefit Pension Plans The Company established a tax-qualified pension plan and master trust to manage the portion of the pension plan assets related to TreeHouse eligible salaried and non-union and union employees not covered by a multi-employer pension plan. We also retain investment consultants to assist our Investment Committee with formulating a long-term investment policy for the master trust. The expected long term rate of return on assets is based on projecting long-term market returns for the various asset classes in which the plans assets are invested, weighted by the target asset allocations. The estimated ranges are primarily based on observations of historical asset returns and their historical volatility. In determining the expected returns, we also consider consensus forecasts of certain market and economic factors that influence returns, such as inflation, gross domestic product trends and dividend yields. Active management of the plan assets may result in adjustments to the historical returns. The rate of return assumption is reviewed annually.

The Company's overall investment strategy is to provide a regular and reliable source of income to meet the liquidity needs of the pension plans and minimize reliance on plan sponsor contributions as a source of benefit security. The Company's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. Central to the policy are target allocation ranges by major asset classes. The objective of the target allocations are to ensure the assets are invested with the intent to protect pension plan assets so that such assets are preserved for the provision of benefits to participants and their beneficiaries and such long-term growth as may maximize the amounts available to provide such benefits without undue risk. Additionally, we consider the weighted average return of a capital markets model and historical

returns on comparable equity, debt and other investments. Our current asset mix guidelines, under the investment policy, target equities at 55% to 65% of the portfolio and fixed income at 35% to 45%. At December 31, 2009, our master trust was invested as follows: equity securities of 66%, fixed income securities of 32%, and cash and cash equivalents of 2%. Equity securities primarily include investments in large-cap and mid-cap companies primarily located in the United States. Fixed income securities include corporate bonds of companies from diversified industries. Other investments are short term in nature, including certificates of deposit, commercial paper, time deposits, fixed rate notes and bonds, and others.

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

The fair value of the Company's pension plan assets at December 31, 2009, by asset category are as follows:

	Pension Plan Assets Fair Value Measurements at December 31, 2009			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1) (In thousands)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment at fair value				
Equity securities:				
U.S. companies(a)	\$ 16,211	\$ 16,211	\$	\$
International companies(b)	3,329	3,329		
AAA corporate bonds(c)	7,513	7,513		
AA corporate bonds(c)	342	342		
A corporate bonds(c)	923	923		
BAA corporate bonds(c)	732	732		
Certificate of deposit(d)	229	229		
Commercial paper(d)	98	98		
Time deposit(d)	94	94		
Fixed rate note/bond(d)	93	93		
Other short-term investments(e)	140	140		
	\$ 29,704	\$ 29,704	\$	\$

- (a) Securities with the primary objective of approximating the risk and return characteristics of the Dow Jones U.S. Index.
- (b) Securities with the primary objective of approximating the risk and return characteristics of the Morgan Stanley All Country World ex-US Index.
- (c) A collective fund for qualified plans with the primary objective of holding a portfolio representative of the overall United States bond and debt market.
- (d) An investment vehicle for cash reserves, which contains a portfolio of high-grade, short term money market instruments. The primary objective is principal management with the liquidity to redeem units on any business day.

- (e) Short-term investments that include repurchase agreements, discount notes, treasury bills, variable rate notes and bonds, and others.

Pension benefits for eligible salaried and non-union TreeHouse employees were frozen in 2002 for years of creditable service. For these employees incremental pension benefits are only earned for changes in compensation effecting final average pay. Pension benefits earned by union employees covered by collective bargaining agreements, but not participating in multiemployer pension plans, are earned based on creditable years of service and the specified benefit amounts negotiated as part of the collective bargaining agreements. The Company's funding policy provides that annual contributions to the pension plan master trust will be at least equal to the minimum amounts required by ERISA. The Company estimates that its 2010 contributions to its pension plans will be \$0.9 million. The measurement date for the defined benefit pension plans is December 31.

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

Other Postretirement Benefits Certain employees participate in benefit programs which provide certain health care and life insurance benefits for retired employees and their eligible dependents. The plan is unfunded. The Company estimates that its 2010 contributions to its postretirement benefit plan will be \$0.1 million. The measurement date for the other postretirement benefit plans is December 31.

The following table summarizes information about our pension and postretirement benefit plans for the years ended December 31, 2009 and 2008:

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Change in benefit obligation:				
Benefit obligation, at beginning of year	\$ 33,540	\$ 27,942	\$ 3,959	\$ 3,619
Service cost	1,933	1,755	255	218
Interest cost	2,083	1,807	239	218
Amendments	182	1,541		
Actuarial (gains) losses	2,854	2,291	358	(2)
Benefits paid	(1,812)	(1,796)	(98)	(94)
Benefit obligation, at end of year	\$ 38,780	\$ 33,540	\$ 4,713	\$ 3,959
Change in plan assets:				
Fair value of plan assets, at beginning of year	\$ 17,600	\$ 17,425	\$	\$
Actual return on plan assets	5,019	(5,488)		
Company contributions	8,897	7,459	98	94
Benefits paid	(1,812)	(1,796)	(98)	(94)
Fair value of plan assets, at year end	\$ 29,704	\$ 17,600	\$	\$
Funded status of the plan	\$ (9,076)	\$ (15,940)	\$ (4,713)	\$ (3,959)
Amounts recognized in the Consolidated Balance Sheet consist of:				
Current liability	\$	\$	\$ (107)	\$ (110)
Non-current liability	(9,076)	(15,940)	(4,606)	(3,849)
Net amount recognized	\$ (9,076)	\$ (15,940)	\$ (4,713)	\$ (3,959)
Amounts recognized in Accumulated Other Comprehensive Loss consist of:				
Net actuarial loss	\$ 9,591	\$ 10,609	\$ 925	\$ 565

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Prior service cost	4,052	4,450	(576)	(644)
Total, before tax effect	\$ 13,643	\$ 15,059	\$ 349	\$ (79)

	Pension Benefits	
	2009	2008
	(In thousands)	
Accumulated benefit obligation:	\$ 35,749	\$ 30,849
Weighted average assumptions used to determine the pension benefit obligations:		
Discount rate	5.75%	6.25%
Rate of compensation increases	4.00%	4.00%

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

The key actuarial assumptions used to determine the postretirement benefit obligations as of December 31, 2009 and 2008 are as follows:

	2009		2008	
	Pre-65	Post 65	Pre-65	Post 65
Healthcare inflation:				
Initial rate	8.0%	10.0%	8.0%	10.0%
Ultimate rate	5.0%	5.0%	5.0%	5.0%
Year ultimate rate achieved	2015	2015	2011	2013
Discount rate	5.75%	5.75%	6.25%	6.25%

The following table summarizes the net periodic cost of our pension plans and postretirement plans, for the years ended December 31, 2009, 2008 and 2007:

	Pension Benefits			Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
	(In thousands)			(In thousands)		
Components of net periodic costs:						
Service cost	\$ 1,933	\$ 1,755	\$ 1,733	\$ 255	\$ 218	\$ 245
Interest cost	2,083	1,807	1,655	239	218	204
Expected return on plan asset	(1,773)	(1,505)	(1,347)			
Amortization of unrecognized prior service cost	580	479	479	(68)	(68)	(68)
Amortization of unrecognized net loss (gain)	626	73		(2)	8	50
Settlement charge			387			
Net periodic pension cost	\$ 3,449	\$ 2,609	\$ 2,907	\$ 424	\$ 376	\$ 431

	Pension Benefits			Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Weighted average assumptions used to determine the periodic benefit costs:						
Discount rate	6.25%	6.25%	5.75%	6.25%	6.25%	5.50-5.75%
Rate of compensation increases	4.00%	4.00%	4.00%			
Expected return on plan assets	7.60%	7.60%	7.60%			

The estimated amount that will be amortized from accumulated other comprehensive income into net pension cost in 2010 is as follows:

	Pension	Postretirement
	(In thousands)	
Net actuarial loss	\$ 463	\$ 27
Prior service cost	\$ 603	\$ (68)

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Estimated future pension and postretirement benefit payments from the plans are as follows:

	Pension Benefit	Postretirement Benefit
	(In thousands)	
2010	\$ 1,902	\$ 107
2011	\$ 1,995	\$ 107
2012	\$ 2,218	\$ 116
2013	\$ 2,488	\$ 119
2014	\$ 2,472	\$ 145
2015-2019	\$ 14,976	\$ 1,012

The effect of a 1% change in health care trend rates would have the following effects on the postretirement benefit plan:

	2009 (In thousands)
1% Increase:	
Benefit obligation, end of year	\$ 955
Service cost plus interest cost for the year	\$ 130
1% Decrease:	
Benefit obligation, end of year	\$ (768)
Service cost plus interest cost for the year	\$ (99)

Most of our employees are not eligible for postretirement medical benefits and of those that are, the majority are covered by a multi-employer plan in which expenses are paid as incurred. The effect on those covered by plans for which we maintain a liability was not significant.

14. OTHER OPERATING (INCOME) EXPENSE, NET

We incurred Other operating (income) expense, net of \$(6.2) million, \$13.9 million and \$(0.4) million, for the years ended December 31, 2009, 2008 and 2007, respectively. Other operating (income) expenses, net consisted of the following:

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
	\$ 886	\$ 12,839	\$

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Facility closing costs and impairment charges related to the Portland, Oregon plant			
(Gain) loss on fire at New Hampton, Iowa facility	(14,533)	500	
Impairment of trademarks and other intangibles	7,600	560	
Gain on sale of La Junta, Colorado manufacturing facility			(415)
Other	(177)		
Total other operating (income) expen			