TreeHouse Foods, Inc.
Form 10-K
February 21, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2012

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from to

Commission File Number 001-32504

TreeHouse Foods, Inc.

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

Delaware	**20-2311383**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**
	60523

2021 Spring Road, Suite 600
Oak Brook, IL
(Address of principal executive offices) **(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 þ 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 þ

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 þ 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 þ 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. þ

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

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

The aggregate market value of the registrant s common stock held by non-affiliates as of June 29, 2012, based on the $62.29 per share closing price on the New York Stock Exchange on such date, was approximately $2,176,401,014. 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 31, 2013 was 36,197,797.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its Annual Meeting of Stockholders to be held on April 25, 2013 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, as amended (the 1933 Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the 1934 Act). The words believe, estimate , project , except, anticipate, plan, intend, foresee, 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; 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 refer to TreeHouse Foods, Inc. and its consolidated subsidiaries unless the contex 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.
- On March 2, 2010, the Company acquired Sturm Foods, Inc. (Sturm), a manufacturer of hot cereals and powdered drink mixes.
- On October 28, 2010, the Company acquired S.T. Specialty Foods, Inc. (S.T. Foods), a manufacturer of dry dinners, which include macaroni and cheese and skillet dinners.
- On April 13, 2012, the Company acquired substantially all of the assets of Naturally Fresh, Inc. (Naturally Fresh), a manufacturer of refrigerated dressings, sauces, marinades, dips, and other specialty items.

We are a food manufacturer servicing primarily the retail grocery and foodservice distribution channels. Our products include non-dairy powdered creamers; private label canned soups; refrigerated and shelf stable salad dressings and sauces; powdered drink mixes; single serve hot beverages; hot cereals; macaroni and cheese; skillet dinners; Mexican sauces; jams and pie fillings; pickles and related products; aseptic sauces, and liquid non-dairy creamer. We manufacture and sell the following:

- private label products to retailers, such as supermarkets, mass merchandisers, and specialty retailers, 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.

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 and direct operating income, which is gross profit less the cost of transporting products to customer locations, 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 and gravies; refrigerated and shelf stable salad dressings and sauces; pickles and related products;

Mexican sauces; jams and pie fillings; aseptic products; liquid non-dairy creamer; powdered drinks and single serve hot beverages; hot cereals; macaroni and cheese and skillet dinners. During 2010, we exited the retail infant feeding business which included the *Nature s Goodness* ® brand.

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

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

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), Sturm and S.T. Foods in the United States and E.D. Smith in Canada. Bay Valley is a Delaware limited liability company, a wholly owned subsidiary of TreeHouse and holds all of the real estate and operating assets related to our business. E.D. Smith, Sturm and S.T. Foods are wholly owned subsidiaries of Bay Valley.

Recent Developments

In the Fall of 2012, the Company launched its single serve roast coffee product line and has worked to increase distribution points and product offerings. The Company s roll out of the single serve hot beverage line is expected to increase throughout 2013.

On August 7, 2012, following a strategic review of the soup category, the Company announced a restructuring plan that included the closure of its Mendota, Illinois soup plant. Subsequently, the Company amended the plan to include reductions to the cost structure of the Pittsburgh, Pennsylvania facility by reorganizing and simplifying the soup business at the Pittsburgh facility. The restructuring plan is expected to reduce manufacturing costs by streamlining operations and moving production from the Mendota plant to the Company s Pittsburgh, Pennsylvania soup plant. Production at the Mendota facility was primarily related to the North American Retail Grocery segment and ended as of December 31, 2012, with full plant closure to occur in the first quarter of 2013. Total restructuring costs are expected to be approximately $20.5 million. Components of the expected costs include non-cash accelerated depreciation of approximately $14.9 million, severance and outplacement costs of approximately $0.9 million, and other closure costs of approximately $4.7 million.

The Company will also close its salad dressing plant in Seaforth, Ontario, Canada and transfer production to facilities where the Company has lower production costs. Production at the Seaforth, Ontario facility is expected to end in the second quarter of 2013, with full plant closure expected in the third quarter of 2013. Total costs to close the Seaforth facility are expected to be approximately $12.8 million. Components of the charges include non-cash accelerated depreciation of approximately $7.1 million, severance of approximately $3.3 million, and other closure costs of approximately $2.4 million.

On April 13, 2012, the Company completed its acquisition of substantially all of the assets of Naturally Fresh, Inc. (Naturally Fresh), a privately owned Atlanta, Georgia based manufacturer of refrigerated dressings, sauces, marinades, dips and specialty items sold within each of our segments. The Company paid a purchase price of approximately $26 million for the business, net of cash. The acquisition was financed through borrowings under the Company s revolving credit facility. The acquisition expanded the Company s refrigerated

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manufacturing and packaging capabilities, broadened its distribution footprint and further developed its presence within the growing category of fresh foods. Naturally Fresh s Atlanta facility, coupled with the Company s existing west coast and Chicago based refrigerated food plants, is expected to allow the Company to more efficiently service customers from coast to coast.

On January 10, 2012, the Company repaid its cross-border intercompany loans with its Canadian subsidiary, E.D. Smith. The repayment totaled $67.7 million and included both principal and interest. Payment was financed with borrowings under our revolving credit facility. The loans were fully repaid and canceled at the time of payment. During 2012, the cash was held by E.D. Smith in short term investments as cash and cash equivalents. We expect to use the cash for general corporate purposes in Canada, including capital projects and acquisitions. The cash relates to foreign earnings that, if repatriated, would result in a tax liability.

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 presents the Company s net sales by major products and percent of total consolidated net sales. Certain product sales for 2011 and 2010 have been reclassified to conform to the current period presentation due to a change in product reporting.

	Year Ended December 31, 2012 Net Sales	%	2011 Net Sales	%	2010 Net Sales	%
	(Dollars in thousands)					
Products						
Non-dairy creamer	$ 362,238	16.6%	$ 359,860	17.6%	$ 313,917	17.3%
Pickles	308,228	14.1	300,414	14.7	319,281	17.6
Salad dressings	284,027	13.0	220,359	10.7	201,775	11.1
Soup and infant feeding	281,827	12.9	299,042	14.6	325,546	17.9
Powdered drinks	234,430	10.8	219,932	10.7	164,487	9.1
Mexican and other sauces	232,025	10.6	195,233	9.5	189,718	10.4
Hot cereals	162,952	7.5	150,364	7.3	105,831	5.9
Dry dinners	126,804	5.8	115,627	5.6	17,129	0.9
Aseptic products	91,585	4.2	92,981	4.5	88,486	4.9
Jams	61,436	2.8	64,686	3.2	61,592	3.4
Other products	36,573	1.7	31,487	1.6	29,262	1.5
Total net sales	$ 2,182,125	100.0%	$ 2,049,985	100.0%	$ 1,817,024	100.0%

Non-dairy creamer Non-dairy creamer includes non-dairy powdered creamer and refrigerated liquid non-dairy 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 both private label and branded 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 manufacturer of non-dairy powdered creamer in the United States based on volume. Non-dairy creamer represented 16.6% of our consolidated net sales in 2012.

Pickles We produce pickles and a variety of related products, including peppers and pickled vegetables. We produce private label and regional branded offerings in the pickles category. These products are sold to

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supermarkets, mass merchandisers, foodservice and industrial customers. We believe we are the largest producer of pickles in the United States, based on volume. Pickles and related products represented 14.1% of our consolidated net sales in 2012.

Salad dressings We produce both pourable and spoonable, refrigerated and shelf stable 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 manufacturer of private label salad dressings in both the United States and Canada, based on volume. Salad dressings represented 13.0% of our consolidated net sales in 2012.

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. During 2010, we exited the retail infant feeding business that included the *Nature s Goodness*® brand. We co-pack organic infant feeding products for a branded baby food company in the Industrial and Export segment. In 2012, soup and infant feeding sales represented 12.9% of our consolidated net sales, with the majority of the sales coming from soup sold through the retail channel.

Powdered drinks We produce a variety of powdered drink mixes, including lemonade, iced tea, energy, vitamin enhanced and isotonic sports drinks. Also included in this category are the Company s single serve beverages, which include the Company s single serve hot beverages, such as cappuccino, cider, hot cocoa and filtered coffee. These products are sold primarily to supermarkets and mass merchandisers. We believe we are the largest manufacturer of private label powdered drink mixes in both the United States and Canada based on volume. Powdered drinks represented 10.8% of our consolidated net sales in 2012.

Mexican and other sauces We produce a wide variety of Mexican and other sauces, including salsa, picante sauce, cheese dip, enchilada sauce, pasta sauces 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 and other sauces represented 10.6% of our consolidated net sales in 2012.

Hot cereals We produce a variety of instant and cook-on-stove hot cereals, including oatmeal, farina and grits in single-serve instant packets and microwaveable bowls. These products are sold primarily to supermarkets and mass merchandisers. We believe we are the largest manufacturer of private label instant hot cereals in both the United States and Canada based on volume. Hot cereals represented 7.5% of our consolidated net sales in 2012.

Dry dinners We produce private label macaroni and cheese, skillet dinners and other value-added side dishes. These products are sold to grocery retailers. Dry dinners represented 5.8% of our consolidated net sales in 2012.

Aseptic products We produce aseptic products which include cheese sauces and puddings. 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. These products are sold primarily to foodservice customers in cans and flexible packages. Aseptic products represented 4.2% of our consolidated net sales in 2012.

Jams We produce jams and pie fillings that are sold to supermarkets, mass merchandisers and foodservice customers in the United States and Canada. Jams represented 2.8% of our consolidated net sales in 2012.

See Note 20 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, which includes food manufacturers and repackagers of foodservice products. We have an internal sales force that manages customer relationships and a 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 purchase products from us either by purchase order or pursuant to contracts that generally are terminable at will.

Products are shipped from our production facilities directly to customers, or from warehouse distribution centers, where products are consolidated for shipment to customers if an order includes products manufactured in more than one production facility or product category. We believe this consolidation of products enables us to improve customer service by offering our customers a single order, invoice and shipment.

We sell our products to a diverse customer base, including most of the leading grocery retailers and foodservice operators in the United States and Canada, and also 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 49 of the 50 largest food retailers, and more than 500 foodservice customers, including the 200 largest food distributors and 53 of the 100 largest restaurant chains. A relatively limited number of customers account for a large percentage of our consolidated net sales. For the year ended December 31, 2012, our ten largest customers accounted for approximately 55.2% of our consolidated net sales. For the years ended December 31, 2012, 2011 and 2010, our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 20.7%, 19.1% and 18.5%, 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 30.1% and 22.6% of our total trade receivables as of December 31, 2012 and 2011, 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 product quality, quality of service, and price. For sales of products to foodservice, industrial and export customers, the principal competitive factors are price, product quality, specifications, and reliability of service. 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, powdered drink mixes and instant hot cereals 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. Some 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.

The U.S. retail food industry has continued to bifurcate from traditional food retailers (those who carry a full array of refrigerated, frozen and shelf stable products) to specialty retailers who cater to consumers who migrate to either end of the value spectrum. These specialty retailers tend to focus on either value offerings for consumers looking for the maximum value of their food purchases, or catering to consumers looking for the highest quality ingredients, unique packaging or products to satisfy particular dietary needs.

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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.

Trademarks sold within the North American Retail Grocery segment include the following pickle brands, *Farman s* ®, *Nalley* ®, *Peter Piper* ® and *Steinfeld s* ®. Also sold are trademarks related to sauces and syrups that include, *Bennett s* ®, *Hoffman House* ®, *Roddenbery s Northwoods* ® and *San Antonio Farms* ®. Non-dairy powdered creamer is sold under our proprietary *Cremora* ® trademark, and non-dairy refrigerated liquid creamer is sold under the *Mocha Mix* ® trademark. Other refrigerated products are sold under the *Second Nature* ® trademark, and our jams and other sauces are sold under the *E.D. Smith* ® and *Habitant* ® trademarks. Our oatmeal is sold under the *McCann s* ® trademark.

Trademarks used in our Food Away From Home segment include *Schwartz* ® and *Saucemaker* ®.

As a result of the Naturally Fresh acquisition, some products such as dressings, sauces, and dips are sold under the *Naturally Fresh* ® trademark. The *Naturally Fresh* ® trademark is used in both the North American Retail Grocery and Food Away From Home segments.

Seasonality

In the aggregate, total demand for our products does not vary significantly by quarter. However, 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. Powdered drinks generally have higher sales in the second and third quarters, while sales of hot cereals tend to be higher in the first and fourth quarters.

Foreign Operations and Geographic Information

Foreign sales information is set forth in Note 20 to the Consolidated Financial Statements.

Raw Materials and Supplies

Our raw materials consist of ingredients and packaging materials. Principal ingredients used in our operations include processed vegetables and meats, soybean oil, coconut oil, casein, oats, wheat, 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 containers, plastic containers, corrugated containers, metal closures and metal cans. 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 packaging materials 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 Part 1, Item 1A Risk Factors and Item 7 Known Trends and Uncertainties.

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Working Capital

Our 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 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 inventories of 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 facility, plus cash flow from operations, is expected to be adequate to provide liquidity for a period of no-less than twelve months. 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 and hot cereals and powdered drinks in Manawa, 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, Ontario, Canada (which is scheduled to close in 2013) and North East, Pennsylvania locations, and new sauces and fruit-based products are developed at our Winona, Ontario, Canada facility. Research and development for Mexican sauces and dry dinner products are carried out at our San Antonio, Texas and Brooklyn Park, Minnesota facilities, respectively. Research and development associated with salad dressings and dips related to the Naturally Fresh acquisition is conducted at our Atlanta, Georgia facility. In the corporate office in Oak Brook, Illinois, a team of food scientists and packaging engineers perform research and development activities across all product categories. 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 $11.1 million, $10.1 million, and $10.5 million in 2012, 2011, and 2010, respectively, and is included in the General and administrative line of the Consolidated Statements of Income.

Employees

As of December 31, 2012, our work force consisted of approximately 4,300 full-time employees in the United States and Canada.

Available Information

We make available, free of charge through the Investor Relations SEC Filings link on our Internet website at www.treehousefoods.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the 1934 Act, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. We use our Internet website, through the Investor Relations link, as a channel for routine distribution of important information, including news releases, analyst presentations, and financial information. 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.

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

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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 United States and foreign laws does not have and is not expected to have, a material financial impact on our capital expenditures, earnings or competitive position.

Executive Officers as of February 21, 2013

Sam K. Reed	66	Chairman of the Board of Directors, President and Chief Executive Officer. Mr. Reed has served as the Chief Executive Officer since January 2005 and President since July 1, 2011.
Dennis F. Riordan	55	Executive Vice President since July 1, 2011. Previously Senior Vice President since January 2006. Chief Financial Officer since January 2006.
Thomas E. O Neill	57	Executive Vice President since July 1, 2011. Previously Senior Vice President since January 2005. General Counsel, Chief Administrative Officer and Corporate Secretary since January 2005.
Harry J. Walsh	57	Executive Vice President since July 1, 2011 and President of Bay Valley Foods, LLC since July 2008. Senior Vice President of Operations from January 2005 through July 2008.
Alan T. Gambrel	58	Senior Vice President, Human Resources and Chief Administrative Officer of Bay Valley Foods, LLC.
Sharon M. Flanagan	47	Senior Vice President and Chief Strategy Officer.
Erik T. Kahler	46	Senior Vice President, Corporate Development.
Chris D. Sliva	49	Senior Vice President for TreeHouse Foods, Inc. and Chief Operating Officer for Bay Valley Foods, LLC.

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.

Disruptions in the financial markets could affect our ability to fund acquisitions or to renew our outstanding credit agreements upon expiration on commercially reasonable terms.

As of December 31, 2012, we had $900 million of outstanding indebtedness which included $393 million under our $750 million amended and restated revolving credit facility that matures September 23, 2016, $100 million in senior notes from a private placement that matures September 30, 2013, $400 million of high yield notes that matures March 1, 2018, and $7 million of tax increment financing, capital lease obligations, and other debt. 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. United States credit markets have experienced significant dislocations and liquidity disruptions in recent years which caused credit spreads on prospective debt financings to widen considerably. These circumstances materially impacted liquidity in debt markets, making

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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 could have an adverse effect on other financial markets in the United States, 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.

As of December 31, 2012, the aggregate principal amount of our debt instruments with exposure to interest rate risk was approximately $393.0 million, based on the outstanding debt balance of our revolving credit facility. As a result, increases in interest rates will increase the cost of servicing our financial instruments with exposure to interest rate risk, and could materially reduce our profitability and cash flows. As of December 31, 2012, each one percentage point change in interest rates would result in an approximate $3.9 million change in the annual cash interest expense before any principal payment on our financial instruments with exposure to interest rate risk.

Fluctuations in foreign currencies may adversely affect earnings.

The Company is exposed to fluctuations in foreign currency exchange rates. We manage the impact of foreign currency fluctuations related to raw material purchases through the use of foreign currency contracts. 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 strong. We expect that a significant portion of our net sales will continue to be derived from a small number of customers, consisting primarily of traditional grocery retailers, mass merchandisers and foodservice operators. For the year ended December 31, 2012, our ten largest customers accounted for approximately 55.2% our 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. 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.

Further, over the past several years, the retail grocery and foodservice industries have experienced a consolidation trend, with mass merchandisers 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. As this trend continues and such customers grow larger, they may seek to use their position to improve their profitability through improved efficiency, lower pricing or increased promotional programs. If we are unable to use our scale, product innovation and category leadership positions to respond to these demands, our profitability or volume growth could be negatively impacted. Additionally, if the surviving entity of a consolidation or similar transaction is not a current customer of the Company, we may lose significant business once held with the acquired retailer.

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

The costs of raw materials, 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 costs of most raw materials in 2012 compared to 2011, that were partially offset by decreases in packaging costs. We expect the volatile nature of these costs to continue with an overall 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 may also 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 affected. In addition, in instances of declining input costs, customers may look 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 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 may 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 the use of discounting or promotional programs, or increase marketing expenditures, 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 that 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 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.

Some customer buying decisions are based on a periodic bidding process in which the successful bidder is assured the selling of its selected product to the food retailer, super center or mass merchandiser until the next bidding process. Our sales volume may decrease significantly if our offer is too high and we lose the ability to sell products through these channels, even temporarily. Alternatively, we risk reducing our margins if our offer is successful but below our desired price points. Either of these outcomes may adversely affect our results of operations.

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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. 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 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 due to, among other things, the incurrence of debt, onetime write-offs of goodwill and amortization expenses of other intangible assets. In addition, future acquisitions could result in dilutive issuances of equity securities.

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, eating habits and overall purchasing trends 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 involves 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.

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, our customers, or suppliers, or restrict our actions, causing our results of operations to be adversely affected.

Increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change may result in increased compliance costs, capital expenditures and other financial obligations for us. We use natural gas, diesel fuel, and electricity in the manufacturing and distribution of our products. Legislation or regulation affecting these inputs could materially affect our profitability. In addition, climate change could affect our ability to procure needed commodities at costs and in quantities we currently experience, and may require us to make additional unplanned capital expenditures.

Our business operations could be disrupted if our information technology systems fail to perform adequately.

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our business data, communications, supply chain, order entry and fulfillment, and other business processes. The failure of our information technology systems to perform as we anticipate could disrupt our business and could result in transaction errors, processing inefficiencies, and the loss of sales and customers, causing our business and results of operations to suffer. In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, system failures, security breaches, and viruses. Any such damage or interruption could have a material adverse effect on our business.

Changes in weather conditions, natural disasters and other events beyond our control could adversely affect our results of operations.

Changes in weather conditions and natural disasters such as floods, droughts, frosts, earthquakes, hurricanes, fires or pestilence, may affect the cost and supply of commodities and raw materials. Additionally, these events could result in reduced supplies of raw materials. Our competitors may be affected differently by weather conditions and natural disasters depending on the location of their suppliers and operations. Further, our earnings may be affected by seasonal factors, including the seasonality of our supplies and consumer demand. Damage or disruption to our production or distribution capabilities due to weather, natural disaster, fire, terrorism, pandemic, strikes or other reasons could impair our ability to manufacture or sell our products. Failure to take adequate steps to reduce the likelihood or mitigate the potential impact of such events, or to effectively manage such events if they occur, particularly when a product is sourced from a single location, could adversely affect our business and results of operations, as well as require additional resources to restore our supply chain.

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

Currently, a significant number of our full-time distribution, production and maintenance employees are covered by collective bargaining agreements. A dispute with a union or employees represented by a union could result in production interruptions caused by work stoppages. If a strike or work stoppage were to occur, our results of operations could be adversely affected.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

We operate the following production facilities, the majority of which are owned, except for the facility located in City of Industry, California. We also lease our principal executive offices in Oak Brook, Illinois and other office space in Green Bay, Wisconsin and Pittsburg, Pennsylvania. We believe our owned and leased facilities are suitable for our operations and provide sufficient capacity to meet our requirements for the foreseeable future. On August 7, 2012, the Company announced the planned closing of the Mendota, Illinois and Seaforth, Ontario, Canada facilities. The Mendota, Illinois facility ended production as of December 31, 2012 and the Seaforth, Ontario, Canada facility is scheduled to end production in the first half of 2013. See the Recent Developments

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section for more information regarding these closures. The following chart lists the location and principal products by segment produced at our production facilities at December 31, 2012:

Facility Location	**Principal Products**	**Segment (1)**
Atlanta, Georgia	Dressings, sauces and dips	1,2
Brooklyn Park, Minnesota	Macaroni and cheese and skillet dinners	1
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, relish and syrup	1,2,3
Green Bay, Wisconsin	Pickles, peppers, relish and sauces	1,2,3
Kenosha, Wisconsin	Macaroni and cheese and skillet dinners	1
Manawa, Wisconsin	Hot cereal and drink mixes	1,2,3
New Hampton, Iowa	Non-dairy powdered creamer	3
North East, Pennsylvania	Salad dressings	1,3
Pecatonica, Illinois	Non-dairy powdered creamer	1,2,3
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
Wayland, Michigan	Non-dairy powdered creamer	1,3
Winona, Ontario, Canada	Jams, pie fillings and specialty sauces	1,2,3

(1) Segments: 1. North American Retail Grocery
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 effect on the Consolidated Financial Statements.

Item 4. ***Mine Safety Disclosures***

Not applicable.

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 (NYSE) under the symbol THS. The high and low sales prices of our common stock as quoted on the NYSE for each quarter of 2012 and 2011 are provided in the table below:

	2012		2011	
	High	**Low**	**High**	**Low**
First Quarter	$ 65.52	$ 54.75	$ 57.01	$ 46.73
Second Quarter	62.29	55.06	61.61	50.02
Third Quarter	63.22	48.42	63.04	50.66
Fourth Quarter	56.73	49.97	67.25	58.12

The closing sales price of our common stock on January 31, 2013 as reported on the NYSE was $52.93 per share. On January 31, 2013, there were 3,349 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. The declaration of dividends is at the discretion of our board of directors (Board of Directors).

The Company did not purchase any shares of its common stock in either 2012 or 2011.

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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 December 31, 2007 through December 31, 2012. 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 Group, Inc., Hilshire Brands Company, General Mills, Inc., Kellogg Co., ConAgra Foods Inc., Archer Daniels Midland Co., H.J. Heinz Company, Campbell Soup Co., McCormick & Co. Inc., JM Smucker Co., Ingredion (formerly Corn Products Int l), Lancaster Colony Corp., Flowers Foods, Inc., Ralcorp Holdings Inc., Hain Celestial Group, Inc., Snyders-Lance, Inc., J&J Snack Foods Corp., B&G Foods, Inc., and Farmer Bros. Inc. Changes from the prior year include the removal of Peet s Coffee and Tea, as they were acquired during 2012. Additionally, Corn Products Int l changed its name to Ingredion; Kraft Foods Inc., became two independent publically traded companies, Kraft Foods Group, Inc. and Mondelez; and Sara Lee Corp became two independent publically traded companies, Hilshire Brands Company and D.E. Master Blenders. As a result of the changes to Kraft Foods Inc. and Sara Lee Corp, the Company has decided to include Kraft Foods Group and Hillshire Brands Company in our peer group index. In 2013, Ralcorp Holdings Inc. will be removed from our peer group following the completion of ConAgra s acquisition of Ralcorp in January 2013. The graph assumes an investment of $100 on December 31, 2007, 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

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Company Name/Index	Base Period 12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
		INDEXED RETURNS Years Ending				
TreeHouse Foods, Inc.	**100**	118.49	169.03	222.23	284.38	226.75
S&P SmallCap 600 Index	**100**	68.93	86.55	109.32	110.43	128.46
Russell 2000 Index	**100**	66.21	84.20	106.82	102.36	119.09
Peer Group	**100**	81.55	98.66	108.54	119.97	131.07

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, 2012:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (In thousands)	(b) Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in Column (a)) (In thousands)
Equity compensation plans approved by security holders:			
TreeHouse Foods, Inc. Equity and Incentive Plan	3,136(1)	$ 33.19(2)	2,995
Equity compensation plans not approved by security holders:			
None			
Total	3,136	$ 33.19	2,995

(1) Includes 0.4 million restricted stock units and 0.2 million performance unit awards outstanding under the TreeHouse Foods, Inc. Equity and Incentive Plan.

(2) Restricted stock units and performance units do not have an exercise price because their value is dependent upon continued performance conditions. Accordingly, the restricted stock units and performance units have been disregarded for purposes of computing the weighted-average exercise price.

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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, 2012. The selected financial data should be read in conjunction with our Management s Discussion and Analysis of Financial Condition and Results of Operations and Consolidated Financial Statements and related Notes.

	Year Ended December 31,				
	2012	2011	2010 (1)	2009	2008
	(In thousands, except per share data)				
Operating data:					
Net sales	$ 2,182,125	$ 2,049,985	$ 1,817,024	$ 1,511,653	$ 1,500,650
Cost of sales	1,728,215	1,576,688	1,385,690	1,185,283	1,208,626
Gross profit	453,910	473,297	431,334	326,370	292,024
Operating expenses:					
Selling and distribution	136,779	142,341	120,120	107,938	115,731
General and administrative	102,973	101,817	107,126	80,466	61,741
Amortization expense	33,546	34,402	26,352	13,381	13,528
Other operating expense (income), net	3,785	6,462	1,183	(6,224)	13,899
Total operating expenses	277,083	285,022	254,781	195,561	204,899
Operating income	176,827	188,275	176,553	130,809	87,125
Other (income) expense:					
Interest expense	51,609	53,071	45,691	18,430	27,614
Interest income	(643)	(48)		(45)	(107)
Loss (gain) on foreign currency exchange	358	(3,510)	(1,574)	(7,387)	13,040
Other expense (income), net	1,294	(1,036)	(3,964)	(2,263)	7,123
Total other expense	52,618	48,477	40,153	8,735	47,670
Income from continuing operations, before income taxes	124,209	139,798	136,400	122,074	39,455
Income taxes	35,846	45,391	45,481	40,760	10,895
Income from continuing operations	88,363	94,407	90,919	81,314	28,560
Loss from discontinued operations, net of tax					(336)
Net income	$ 88,363	$ 94,407	$ 90,919	$ 81,314	$ 28,224
Basic earnings per common share:					
Income from continuing operations	$ 2.44	$ 2.64	$ 2.59	$ 2.54	$ .91
Loss from discontinued operations					(.01)
Net income	$ 2.44	$ 2.64	$ 2.59	$ 2.54	$ .90
Diluted earnings per common share:					
Income from continuing operations	$ 2.38	$ 2.56	$ 2.51	$ 2.48	$ .91
Loss from discontinued operations					(.01)
Net income	$ 2.38	$ 2.56	$ 2.51	$ 2.48	$ .90
Weighted average shares basic	36,155	35,805	35,079	31,982	31,341
Weighted average shares diluted	37,118	36,950	36,172	32,798	31,469
Other data:					

Balance sheet data (at end of period):					
Total assets	$ 2,525,873	$ 2,404,529	$ 2,391,248	$ 1,384,428	$ 1,355,682
Long-term debt	898,100	902,929	976,452	401,640	475,233
Other long-term liabilities	49,027	54,346	38,553	31,453	44,563
Deferred income taxes	212,461	202,258	194,917	45,381	27,485
Total stockholders equity	1,179,255	1,073,517	977,966	756,229	620,131

(1) We acquired Strum Foods, Inc. and S.T. Specialty Foods, Inc. in 2010.

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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 private label salad dressings, powdered drink mixes, and instant hot cereals in the United States and Canada and the largest manufacturer of non-dairy powdered creamer and pickles in the United States, based upon total sales volumes. In 2012, 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 32% of all shelf stable pickle and pepper products, approximately 49% of all non-dairy powdered creamer, approximately 16% of all powdered drinks, approximately 20% of all salad dressings and approximately 18% of all canned soup.

We sell our products primarily to the retail grocery and foodservice channels. For the year ended December 31, 2012, sales to the retail grocery and foodservice channels represented 71.9% and 15.5%, respectively, of our consolidated net sales. The remaining 12.6% 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.

Utilize Our Scale and Innovation to Meet Customer Needs: The U.S. retail food industry has continued to bifurcate from traditional food retailers (those who carry a full array of refrigerated, frozen and shelf stable products) to specialty retailers who cater to consumers who migrate to either end of the value spectrum. These specialty retailers tend to focus on either value offerings for consumers looking for the maximum value of their food purchases, or catering to consumers looking for the highest quality ingredients, unique packaging or products to satisfy particular dietary needs. We offer a broad array of innovative products that meet the good, better and best needs of both traditional grocers and specialty retailers.

Continue to Drive Growth and Profitability from our Existing Product Portfolio: We believe we can continue to drive organic growth from our existing product portfolio. Through insights gained from our Economic Value Added (EVA) 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 that 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, powdered drinks, instant hot cereals, and pickles, as well as significant 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 certain customers view our size and scale as 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 evaluated for merit utilizing a rigorous analysis that assesses targets for their market attractiveness, intrinsic value and strategic fit. We believe our acquisitions have been successful 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 more than ten. 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 acquisition market in 2012 was relatively quiet, as sellers were generally waiting for an opportunity to sell when conditions improved. This resulted in a higher level of bolt-on or tuck-in acquisitions of smaller entities. For example, we acquired substantially all of the assets of Naturally Fresh for approximately $26 million, and the aseptic cheese and pudding business of Associated Milk Producers, Inc. (AMPI) for $4 million. These two deals are substantially smaller in size compared to the larger acquisitions we completed in the past. However, in the later part of 2012, we saw increased activity in the merger and acquisition market, which leads us to believe that the deal market is recovering.

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, 2012, 2011 and 2010. This should be read in conjunction with the Consolidated Financial Statements and the Notes 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.

During 2012, the food industry experienced declining food volumes, shifting consumer behaviors and volatility in the cost of commodities. The Company believes that overall food volumes decreased due in part to less consumer-generated waste. We believe consumers are generating less waste and consequently, reducing food volumes by using a higher percentage of their purchases by eating more leftovers or preparing smaller meals that produce less waste. Additionally, we believe that due to these difficult economic times, consumers have also de-loaded their pantry stock. These factors appear, in our view, to be the main drivers of the reduced overall volumes. We expect that over the long term, volumes will stabilize and return to rates consistent with population growth. While the food industry has experienced a year over year decline in food volume, we have been able to maintain relatively flat retail volumes, showing that we have been able to navigate these tough times. Given the reduced industry volume, there appears to be excess capacity in certain categories, which has resulted in certain companies, including TreeHouse, to enter into restructuring programs and reduce capacity. For example, we have reduced capacity in recent years in the pickle and soup categories, and will continue to assess our business as the market and industry change.

Also impacting the industry and specifically the Company is the shift in consumer behavior and their shopping destinations. Traditional grocers and mass merchants have seen their foot traffic and volumes subside throughout the year, while alternate retail channels, such as limited assortment and discount stores have experienced increases. In 2011, we realigned our sales force to the various retail channels in anticipation of the changes in the retail landscape. In addition, we are continuously focused on lowering our cost to serve and we have developed new formulations, packaging, and sizes to meet customer and consumer needs.

During the year, the food industry and the Company experienced volatility in energy and commodity prices as the impact of drought and global conflicts were reflected in their respective prices. However, due to our purchasing programs, the Company was largely unaffected by these issues in 2012. The Company expects that commodity prices will continue to be volatile with an overall upward trend.

Despite the challenges already discussed, we had great success with the launch of our single serve filtered coffee products, where customer feedback has been positive. Our goal is to be the industry leader in premium private label single serve filtered coffee products. In addition to this investment, we also completed acquisitions, in which the Naturally Fresh acquisition helped create a refrigerated manufacturing network that allows us to serve customers from coast to coast.

The Company s exposure to foreign exchange rates is primarily limited to the Canadian dollar. For the year 2012, the Company had a foreign currency loss of $0.4 million due to fluctuations between the U.S. and Canadian currency exchange rates.

The Company completed its annual assessment of goodwill and intangible assets as of December 31, 2012 and did not have any impairments.

Recent Developments

In the Fall of 2012, the Company launched its single serve filtered coffee product. While the impact of this product launch was not materially significant in 2012, the Company expects to become the private label leader in the single serve filtered coffee category.

On August 7, 2012, following a strategic review of the soup category and its related business, the Company announced a restructuring plan that includes the closure of its Mendota, Illinois soup plant. Subsequently, the Company amended the plan to include reductions to the cost structure of the Pittsburgh, Pennsylvania facility by reorganizing and simplifying the soup business at the Pittsburgh facility. The restructuring is expected to reduce manufacturing costs by streamlining operations and moving production from the Mendota plant to the Company s Pittsburgh, Pennsylvania soup plant. Production at the Mendota facility was primarily related to the North American Retail Grocery segment and ended as of December 31, 2012, with full plant closure to occur in the first quarter of 2013. Total restructuring costs are expected to be approximately $20.5 million, which decreased from $21.4 million as reported in the third quarter of 2012, as a result of refined estimates. Components of the expected costs include non-cash accelerated depreciation of approximately $14.9 million, severance and outplacement costs of approximately $0.9 million, and other closure costs of approximately $4.7 million.

The Company will also close its salad dressing plant in Seaforth, Ontario, Canada and transfer production to facilities where the Company has lower production costs. Production at the Seaforth, Ontario facility is expected to end in the second quarter of 2013, with full plant closure expected in the third quarter of 2013. Total costs to close the Seaforth facility are expected to be approximately $12.8 million, which decreased from $13.6 million as reported in the third quarter of 2012, as a result of refined estimates. Components of the charges include non-cash accelerated depreciation of approximately $7.1 million, severance of approximately $3.3 million, and other closure costs of approximately $2.4 million.

Concurrent with the restructurings noted above, the Company reviewed the fixed assets for impairment at the product category level and no impairment was indicated. During the review, the useful lives of the related assets were reassessed and shortened to be consistent with the dates that production at the facilities were expected to

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end. The change in estimated useful lives related to the restructurings resulted in $10.7 million of accelerated depreciation in 2012. We expect to incur an additional $11.3 million of accelerated depreciation through the second quarter of 2013.

On April 13, 2012, the Company completed its acquisition of substantially all of the assets of Naturally Fresh, Inc. (Naturally Fresh), a privately owned Atlanta, Georgia based manufacturer of refrigerated dressings, sauces, marinades, dips and specialty items sold within each of our segments. The Company paid a purchase price of approximately $26 million for the business, net of cash. The acquisition was financed through borrowings under the Company s revolving credit facility. The acquisition expanded the Company s refrigerated manufacturing and packaging capabilities, broadened its distribution footprint and further developed its presence within the growing category of fresh foods. Naturally Fresh s Atlanta facility, coupled with the Company s existing West Coast and Chicago based refrigerated food plants, is expected to allow the Company to more efficiently service customers from coast to coast.

On January 10, 2012, the Company repaid its cross-border intercompany loans with its Canadian subsidiary, E.D. Smith. The repayment totaled $67.7 million and included both principal and interest. Payment was financed with borrowings under our revolving credit facility. The loans were fully repaid and canceled at the time of payment. During 2012, the cash was held by E.D. Smith in short term investments as cash and cash equivalents. We expect to use the cash for general corporate purposes in Canada, including capital projects and acquisitions. The cash relates to foreign earnings that, if repatriated, would result in a tax liability.

Results of Operations

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

	Year Ended December 31,					
	2012		2011		2010	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)					
Net sales	$ 2,182,125	100.0%	$ 2,049,985	100.0%	$ 1,817,024	100.0%
Cost of sales	1,728,215	79.2	1,576,688	76.9	1,385,690	76.3
Gross profit	453,910	20.8	473,297	23.1	431,334	23.7
Operating expenses:						
Selling and distribution	136,779	6.3	142,341	6.9	120,120	6.6
General and administrative	102,973	4.7	101,817	5.0	107,126	5.9
Amortization expense	33,546	1.5	34,402	1.7	26,352	1.5
Other operating expense, net	3,785	0.2	6,462	0.3	1,183	
Total operating expenses	277,083	12.7	285,022	13.9	254,781	14.0
Operating income	176,827	8.1	188,275	9.2	176,553	9.7
Other (income) expense:						
Interest expense	51,609	2.3	53,071	2.6	45,691	2.5
Interest income	(643)		(48)			
Loss (gain) on foreign currency exchange	358		(3,510)	(0.2)	(1,574)	(0.1)
Other expense (income), net	1,294	0.1	(1,036)		(3,964)	(0.2)
Total other expense	52,618	2.4	48,477	2.4	40,153	2.2
Income before income taxes	124,209	5.7	139,798	6.8	136,400	7.5
Income taxes	35,846	1.6	45,391	2.2	45,481	2.5
Net income	$ 88,363	4.1%	$ 94,407	4.6%	$ 90,919	5.0%

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Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net Sales Net sales increased 6.4% to $2,182.1 million for the year ended December 31, 2012, compared to $2,050.0 million, for the year ended December 31, 2011. Net sales by segment are shown in the following table:

	Consolidated Net Sales			
	Year Ended December 31,		$ Increase/	% Increase/
	2012	2011	(Decrease)	(Decrease)
	(Dollars in thousands)			
North American Retail Grocery	$ 1,568,014	$ 1,456,213	$ 111,801	7.7%
Food Away From Home	338,357	307,819	30,538	9.9
Industrial and Export	275,754	285,953	(10,199)	(3.6)
Total	$ 2,182,125	$ 2,049,985	$ 132,140	6.4%

The increase in net sales is driven by the acquisition of Naturally Fresh (3.0%) and increases in pricing (3.4%) needed to offset higher costs.

Cost of Sales All expenses incurred to bring a product to completion are included in cost of sales, such as raw material 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 increased to 79.2% in 2012 from 76.9% in the prior year. The increase in cost of sales is primarily due to an increase in operating and input costs, accelerated depreciation associated with the restructurings, and a shift in the mix of products sold. The underlying costs of most raw materials continued to trend higher in 2012. This increase in raw material costs was partially offset by a slight decrease in packaging costs.

Operating Costs and Expenses Operating expenses decreased to $277.1 million in 2012 compared to $285.0 million in 2011. The decrease in 2012 resulted from the following:

Selling and distribution expenses decreased $5.6 million in 2012 compared to 2011, and as a percentage of net sales, decreased to 6.3% in 2012 from 6.9% in 2011. The decrease is mainly due to lower distribution and delivery costs resulting from reduced freight rates, along with efficiencies resulting from last year s warehouse consolidation program. The decrease was partially offset by increased costs associated with the acquisition of Naturally Fresh and higher salaries resulting from investments in business support teams in 2012 versus 2011.

General and administrative expenses increased $1.2 million in 2012 compared to 2011, which was primarily related to the acquisition of Naturally Fresh; however, general and administrative expenses as a percent of sales decreased to 4.7% from 5.0% in 2011.

Amortization expense decreased $0.9 million in 2012 compared to 2011 as amortization from acquired intangibles in the current year was offset by the complete amortization of several assets and projects.

Other operating expense decreased $2.7 million in 2012 compared to 2011. Expenses in 2012 primarily consisted of restructuring costs that included the soup restructuring and the Seaforth closure, as well as executor costs related to closed facilities. Expenses in 2011 related to facility closings, primarily the closing of the Springfield, Missouri pickle plant.

Interest expense in 2012 was $51.6 million, a decrease of $1.5 million from 2011 primarily due to lower interest rates.

Interest income of $0.6 million in 2012 relates to interest earned on the cash held by our Canadian subsidiary. In 2011, interest income was insignificant.

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The impact of changes in foreign currency resulted in a loss of $0.4 million in 2012, versus a gain in 2011 of $3.5 million, due to fluctuations in currency exchange rates between the U.S. and Canadian dollar.

Other (income) expense was a loss of $1.3 million in 2012 versus a gain of $1.0 million in 2011, primarily due to a mark to market loss on commodity contracts.

Income Taxes Income tax expense was recorded at an effective rate of 28.9% for 2012 compared to 32.5% for 2011. The decrease in the effective tax rate is attributable to the tax impact of the repayment of certain intercompany debt, a decrease in the Canadian tax rate, and a decrease in state tax expense.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011 Results by Segment

North American Retail Grocery

	Year Ended December 31,			
	2012		2011	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	$ 1,568,014	100.0%	$ 1,456,213	100.0%
Cost of sales	1,219,516	77.8	1,102,843	75.7
Gross profit	348,498	22.2	353,370	24.3
Freight out and commissions	69,665	4.4	77,034	5.3
Direct selling and marketing	34,097	2.2	32,592	2.3
Direct operating income	$ 244,736	15.6%	$ 243,744	16.7%

Net sales in the North American Retail Grocery segment increased by $111.8 million, or 7.7%, for the year ended December 31, 2012 compared to the prior year. The change in net sales from 2011 to 2012 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2011 Net sales	$ 1,456,213	
Volume/mix	32,856	2.3%
Pricing	52,826	3.6
Foreign currency	(2,689)	(0.2)
Acquisitions	28,808	2.0
2012 Net sales	$ 1,568,014	7.7%

The increase in net sales from 2011 to 2012 is primarily due to price increases, increases in volume/mix, and the acquisition of Naturally Fresh. Overall volume/mix was higher in 2012 compared to that of 2011, primarily due to volume increases in salad dressings, pasta sauces, and Mexican sauces, partially offset by volume decreases in non-dairy creamer and soup.

Cost of sales as a percentage of net sales increased from 75.7% in 2011 to 77.8% in 2012 primarily due to higher operating and raw material costs, partially offset by increased pricing and decreases in packaging costs. Also impacting the percentage increase is a shift in the sales mix to customers and products that carry a higher cost on a percentage basis.

Freight out and commissions paid to independent brokers decreased $7.4 million or 9.6%, primarily due to lower freight rates and efficiencies resulting from last year s warehouse consolidation program.

Direct selling and marketing increased $1.5 million primarily due to the Naturally Fresh acquisition.

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Food Away From Home

	Year Ended December 31, 2012		2011	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	$ 338,357	100.0%	$ 307,819	100.0%
Cost of sales	274,082	81.0	244,741	79.5
Gross profit	64,275	19.0	63,078	20.5
Freight out and commissions	12,398	3.7	11,262	3.6
Direct selling and marketing	7,964	2.3	7,008	2.3
Direct operating income	$ 43,913	13.0%	$ 44,808	14.6%

Net sales in the Food Away From Home segment increased by $30.5 million, or 9.9%, for the year ended December 31, 2012 compared to the prior year. The change in net sales from 2011 to 2012 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2011 Net sales	$ 307,819	
Volume/mix	(13,357)	(4.3)
Pricing	12,108	3.9
Foreign currency	(416)	(0.1)
Acquisitions	32,203	10.4
2012 Net sales	$ 338,357	9.9%

Net sales increased in 2012 compared to 2011 due to the acquisition of Naturally Fresh and price increases, partially offset by decreased volumes in pickles, aseptic products, and Mexican sauces.

Cost of sales as a percentage of net sales increased from 79.5% in 2011 to 81.0% in 2012, due to increases in operating and raw material costs, and a shift in sales mix, partially offset by increased pricing and decreases in packaging costs.

Freight out and commissions paid to independent brokers increased $1.1 million in 2012 compared to 2011, primarily due to the acquisition of Naturally Fresh. Freight costs did not decrease in this segment as they did for the North American Retail Grocery segment, as most customers pick up their products. Freight and commissions were 3.7% of net sales, consistent with the prior year rate of 3.6%.

Direct selling and marketing expenses were $8.0 million in 2012 compared to $7.0 million in 2011 reflecting the acquisition of Naturally Fresh.

Industrial and Export

	Year Ended December 31, 2012		2011	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	$ 275,754	100.0%	$ 285,953	100.0%
Cost of sales	223,667	81.1	229,104	80.1

Gross profit	52,087	18.9	56,849	19.9
Freight out and commissions	5,924	2.2	6,825	2.4
Direct selling and marketing	1,500	0.5	1,756	0.6
Direct operating income	$ 44,663	16.2%	$ 48,268	16.9%

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Net sales in the Industrial and Export segment decreased by $10.2 million, or 3.6%, for the year ended December 31, 2012 compared to the prior year. The change in net sales from 2011 to 2012 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2011 Net sales	$ 285,953	
Volume/mix	(16,225)	(5.7)
Pricing	5,431	1.9
Foreign currency	(113)	
Acquisitions	708	0.2
2012 Net sales	$ 275,754	(3.6)

The decrease in net sales is primarily due to volume/mix decreases, partially offset by pricing. The volume decrease was primarily due to decreases in soup, non-dairy creamer, and infant feeding sales volumes.

Cost of sales, as a percentage of net sales, increased from 80.1% in 2011 to 81.1% in 2012 primarily due to a shift in sales mix, and increases in operating and raw material costs that were partially offset by price increases and decreases in packaging costs.

Freight out and commissions paid to independent sales brokers were $5.9 million in 2012 compared to $6.8 million in 2011, due to lower volumes that resulted in lower freight costs and commissions.

Direct selling and marketing was $1.5 million in 2012 compared to $1.8 million in 2011.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net Sales Net sales increased 12.8% to $2,050.0 million for the year ended December 31, 2011, compared to $1,817.0 million, for the year ended December 31, 2010. Net sales by segment are shown in the following table:

	Consolidated Net Sales			
	Year Ended December 31,			%
	2011	2010	$ Increase/ (Decrease)	Increase/ (Decrease)
	(Dollars in thousands)			
North American Retail Grocery	$ 1,456,213	$ 1,247,126	$ 209,087	16.8%
Food Away From Home	307,819	314,998	(7,179)	(2.3)
Industrial and Export	285,953	254,900	31,053	12.2
Total	$ 2,049,985	$ 1,817,024	$ 232,961	12.8%

The increase was driven by the acquisitions of Sturm and S.T. Foods in 2010, increases in pricing needed to offset higher input costs, favorable foreign currency exchange rates between the U.S. and Canadian dollar and a favorable product mix.

Cost of Sales All expenses incurred to bring a product to completion are included in cost of sales, such as raw materials, 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 increased to 76.9% in 2011 from 76.3% in the prior year. The increase in cost of sales was primarily due to an increase in ingredient and packaging costs, and warehouse start-up costs associated with the consolidation of the Company s distribution network, partially offset by a favorable mix of sales from Sturm and S.T. Foods. The underlying

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commodity cost of most raw materials and packaging supplies increased in 2011 and was substantially offset by increases in selling prices by the end of the third quarter. However, during the fourth quarter, costs increased due to unfavorable LIFO inventory adjustments, and higher production costs resulting from the reduced volume level.

Operating Costs and Expenses Operating expenses increased to $285.0 million in 2011 compared to $254.8 million in 2010. The increase in 2011 resulted from the following:

Selling and distribution expenses increased $22.2 million in 2011 compared to 2010. The increase was primarily due to the acquisition of Sturm and S.T. Foods during 2010. Selling and distribution expenses as a percentage of net sales increased to 6.9% from 6.6% in 2010 mainly due to increases in distribution costs partially offset by reduced incentive compensation.

General and administrative expenses decreased $5.3 million in 2011 compared to 2010, which was primarily related to reduced incentive compensation and acquisition costs, partially offset by incremental general and administrative costs of Sturm and S.T. Foods and costs related to the ERP systems implementation.

Amortization expense increased $8.1 million in 2011 compared to 2010 due primarily to the addition of intangible assets acquired in the Sturm and S.T. Foods acquisitions and amortization of capitalized ERP system costs.

Other operating expense increased $5.3 million in 2011 compared to 2010. Expense in 2011 related to facility closings, primarily the closing of the Springfield, Missouri pickle plant. Operating expense in 2010 primarily related to costs associated with the exit from the branded baby food business, partially offset by the gain on a postretirement plan curtailment at our Dixon facility.

Interest expense in 2011 was $53.1 million, an increase of $7.4 million from 2010 primarily due to an increase in debt resulting from the Sturm and S.T. Foods acquisitions and higher borrowing costs, offset by the expiration of an interest rate swap contract that had locked in a portion of our floating rate debt at a higher fixed interest rate.

The impact of changes in foreign currency resulted in a gain of $3.5 million in 2011, versus a gain in 2010 of $1.6 million, due to fluctuations in currency exchange rates between the U.S. and Canadian dollar.

Other (income) expense was a gain of $1.0 million in 2011 versus a gain of $4.0 million in 2010. The decrease was primarily related to the gain associated with the mark to market adjustment of our interest rate swap agreement, totaling $4.0 million in 2010.

Income Taxes Income tax expense was recorded at an effective rate of 32.5% for 2011 compared to 33.3% for 2010.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010 Results by Segment

North American Retail Grocery

	Year Ended December 31,			
	2011		2010	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	$ 1,456,213	100.0%	$ 1,247,126	100.0%
Cost of sales	1,102,843	75.7	933,734	74.9
Gross profit	353,370	24.3	313,392	25.1
Freight out and commissions	77,034	5.3	59,496	4.7
Direct selling and marketing	32,592	2.3	32,423	2.6
Direct operating income	$ 243,744	16.7%	$ 221,473	17.8%

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Net sales in the North American Retail Grocery segment increased by $209.1 million, or 16.8%, for the year ended December 31, 2011 compared to the prior year. The change in net sales from 2010 to 2011 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2010 Net sales	$ 1,247,126	
Volume	8,524	0.7%
Pricing	27,440	2.2
Mix/other	4,999	0.4
Foreign currency	8,462	0.7
Acquisitions	159,662	12.8
2011 Net sales	$ 1,456,213	16.8%

The increase in net sales from 2010 to 2011 was primarily due to the acquisition of Sturm and S.T. Foods, price increases, foreign currency fluctuations and higher unit sales. Overall volume is higher in 2011 compared to that of 2010, primarily due to increases in the salad dressings, powdered drinks, dry dinners and hot cereal categories, offset by the Company s exit from the retail infant feeding business in 2010.

Cost of sales as a percentage of net sales increased from 74.9% in 2010 to 75.7% in 2011 primarily due to higher raw material, ingredient and packaging costs and warehouse start-up costs that were partially offset by increased pricing.

Freight out and commissions paid to independent brokers increased $17.5 million or 29.5%, primarily due to increased volume from the Sturm and S.T. Foods acquisitions and increases in freight costs primarily due to higher fuel costs.

Direct selling and marketing increased $0.2 million primarily due to the Sturm and S.T. Foods acquisitions.

Food Away From Home

	Year Ended December 31,			
	2011		2010	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	$ 307,819	100.0%	$ 314,998	100.0%
Cost of sales	244,741	79.5	249,508	79.2
Gross profit	63,078	20.5	65,490	20.8
Freight out and commissions	11,262	3.6	10,518	3.3
Direct selling and marketing	7,008	2.3	7,221	2.3
Direct operating income	$ 44,808	14.6%	$ 47,751	15.2%

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Net sales in the Food Away From Home segment decreased by $7.2 million, or 2.3%, for the year ended December 31, 2011 compared to the prior year. The change in net sales from 2010 to 2011 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2010 Net sales	$ 314,998	
Volume	(27,137)	(8.6)%
Pricing	3,204	1.0
Mix/other	12,026	3.8
Foreign currency	1,361	0.4
Acquisitions	3,367	1.1
2011 Net sales	$ 307,819	(2.3)%

Net sales decreased in 2011 compared to 2010 due to decreases in volume of our sales of low margin processed pickles, partially offset by the acquisition of Sturm, foreign currency fluctuations, price increases and a favorable product mix.

Cost of sales as a percentage of net sales increased from 79.2% in 2010 to 79.5% in 2011, due to net increases in raw material and ingredient costs, partially offset by exiting certain low margin processed pickle business and increased pricing.

Freight out and commissions paid to independent brokers increased $0.7 million in 2011 compared to 2010, primarily due to the acquisition of Sturm and increased freight costs primarily due to higher fuel costs.

Direct selling and marketing expenses were $7.0 million in 2011 compared to $7.2 million in 2010.

Industrial and Export

	Year Ended December 31,			
	2011		2010	
	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)			
Net sales	$ 285,953	100.0%	$ 254,900	100.0%
Cost of sales	229,104	80.1	202,448	79.4
Gross profit	56,849	19.9	52,452	20.6
Freight out and commissions	6,825	2.4	5,583	2.2
Direct selling and marketing	1,756	0.6	1,813	0.7
Direct operating income	$ 48,268	16.9%	$ 45,056	17.7%

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Net sales in the Industrial and Export segment increased by $31.1 million, or 12.2%, for the year ended December 31, 2011 compared to the prior year. The change in net sales from 2010 to 2011 was due to the following:

	Dollars	Percent
	(Dollars in thousands)	
2010 Net sales	$ 254,900	
Volume	(6,707)	(2.6)%
Pricing	17,483	6.9
Mix/other	18,020	7.1
Foreign currency	294	0.1
Acquisitions	1,963	0.7
2011 Net sales	$ 285,953	12.2%

The increase in net sales was primarily due to price increases, a favorable product mix and the acquisition of the Sturm co-pack business. The volume decrease was mainly due to a decrease in co-pack soup business partially offset by higher sales of non-dairy creamer.

Cost of sales, as a percentage of net sales, increased from 79.4% in 2010 to 80.1% in 2011 primarily due to increases in raw material, ingredient and packaging costs partially offset by price increases.

Freight out and commissions paid to independent sales brokers were $6.8 million in 2011 compared to $5.6 million in 2010, due to increases in freight costs primarily due to higher fuel costs.

Direct selling and marketing was $1.8 million in 2011 and 2010.

Known Trends and Uncertainties

The costs of raw materials, ingredients, packaging materials, fuel, and energy have varied widely in recent years and future changes in such costs may cause our results of operations and our operating margins to fluctuate significantly. We experienced increases in costs of most raw materials in 2012 compared to 2011, specifically, soybean oil and corn sweeteners. These increases were partially offset by decreases in packaging costs, specifically plastics. We expect the volatile nature of these costs to continue with an overall upward trend. We manage the impact of cost increases, wherever possible, on commercially reasonable terms, by locking in prices on quantities required to meet our production requirements. In addition, we offset the effect of increased costs 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.

The U.S. retail food industry has continued to bifurcate from traditional food retailers (those who carry a full array of refrigerated, frozen and shelf stable products) to specialty retailers who cater to consumers who migrate to either end of the value spectrum. These specialty retailers tend to focus on either value offerings for consumers looking for the maximum value of their food purchases, or catering to consumers looking for the highest quality ingredients, unique packaging or products to satisfy particular dietary needs. This changing behavior has prompted us to develop new formulations, packaging, and sizes to meet customer and consumer needs. Over the past year, we have seen double digit growth in limited assortment and discount store volumes and we expect this trend to continue, but at a much lower rate. As economic conditions improve, however, we believe this trend will level off.

Competitive Environment

There has been significant consolidation in the retail grocery and foodservice industries in recent years resulting in mass merchandiser and non-traditional grocers, such as those offering a limited assortment, to gain 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 and profits if any one or more of our existing customers were to be sold or if limited assortment stores reduce the variety of products that we sell.

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.

Consistent with our strategy, our future growth depends, in part, on our ability to identify and acquire suitable acquisition candidates. There has been a consolidation trend in the food manufacturing industry and competition for acquisition candidates continues to intensify. 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 $605.3 million in cash flow from operating activities due to strong earnings and by focusing on working capital management. If additional borrowings are needed, approximately $346.2 million was available on the revolving credit facility as of December 31, 2012. See Note 10 to our Consolidated Financial Statements for additional information regarding our revolving credit facility. We believe that, given our cash flow from operating activities and our available credit capacity, we can comply with the current terms of the credit facility and meet foreseeable liquidity requirements for a period of no less than twelve months.

Cash flows from operating activities:

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Net income	$ 88,363	$ 94,407	$ 90,919
Depreciation & amortization	98,215	83,018	69,778
Stock-based compensation	12,824	15,107	15,838
(Gain) loss on foreign currency exchange	(97)	18	1,469
Curtailment of postretirement benefit obligations			(2,357)
Mark to market (gain) loss on derivative contracts	1,092	(861)	(4,363)
Loss (gain) on disposition of assets	3,786	1,681	3,159
Write-down of impaired assets		2,864	
Deferred income taxes	5,724	15,114	9,199
Excess tax benefits from stock based compensation	(2,657)	(4,473)	(5,732)
Changes in operating assets and liabilities, net of acquisitions	(4,112)	(50,992)	66,580
Other	1,421	188	161
Net cash provided by operating activities	$ 204,559	$ 156,071	$ 244,651

Our cash from operations was $204.6 million in 2012, compared to $156.1 million in 2011, an increase of $48.5 million. The increase in cash from operating activities is primarily due to the Company s efforts to maintain operating assets at a consistent level in contrast to the growth of net assets in 2011. Additionally, the increase is also due to a higher level of net income excluding non-cash charges such as depreciation and amortization resulting from the growth of the business and the acquisition of Naturally Fresh.

Cash provided by operating activities is used to pay down debt and pay for additions to property, plant and equipment.

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Cash flows from investing activities:

	Year Ended December 31,		
	2012	2011 (In thousands)	2010
Additions to property, plant and equipment	$ (70,277)	$ (68,523)	$ (39,543)
Additions to intangible assets	(9,243)	(9,273)	(22,110)
Insurance proceeds			
Cash outflows for acquisitions, less cash acquired	(29,955)	3,243	(844,496)
Proceeds from sale of fixed assets	113	251	43
Net cash used in investing activities	$ (109,362)	$ (74,302)	$ (906,106)

In 2012, cash used in investing activities increased by $35.1 million compared to 2011 primarily due to the acquisition of Naturally Fresh for an aggregate amount of $26 million and the acquisition of the AMPI aseptic business for $4 million.

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

Cash flows from financing activities:

	Year Ended December 31,		
	2012	2011 (In thousands)	2010
Proceeds from issuance of debt	$	$	$ 400,000
Net borrowing (repayment) of debt	(4,743)	(78,217)	173,390
Payments of deferred financing costs		(1,518)	(16,418)
Excess tax benefits from stock-based compensation	2,657	4,473	5,732
Net (payments) proceeds related to stock based award activities	(3,879)	(8,278)	(10,771)
Issuance of common stock, net of expenses			110,688
Net cash provided by (used in) financing activities	$ (5,965)	$ (83,540)	$ 662,621

Net cash flow used by financing activities was $6.0 million in 2012 compared to $83.5 million provided by financing activities in 2011. The decrease is mainly attributable to a decrease in the net repayment of debt, as the Company repaid $67.7 million of intercompany debt using borrowings from the revolving credit facility. The Company believes it has sufficient liquidity with the funds available under the revolving credit facility and does not anticipate a significant risk to cash flows in the foreseeable future as 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 Company contributed $4.2 million, $3.6 million and $1.3 million in 2012, 2011 and 2010 respectively to its pension plan, and expects to make contributions of approximately $3.5 million in 2013.

A portion of the Company s cash is generated by the earnings of our Canadian operations. The Company has asserted that these earnings are and will be indefinitely reinvested in Canada and, accordingly, are not available to fund U.S. operating activities. As of December 31, 2012, there was $94.1 million of cash and cash equivalents held by our Canadian subsidiary that is not available to fund operations in the U.S., unless these funds are repatriated. If the Company were to repatriate these funds, we would be required to pay U.S. income taxes. However, a determination of the potential tax liability is not practical at this time. We currently do not intend to repatriate these funds. As a temporary measure, the Company established a series of short term intercompany loans from the Canadian operations to the U.S. The cash was used to pay down the Company s revolving line of credit and reduce the overall interest expense of the consolidated group. On January 10, 2012, the Company repaid $67.7 million of cross border intercompany loans in full and canceled the related notes. Payment was financed with borrowings under our revolving credit facility. The loans were fully repaid and canceled at the time of payment. During 2012, the cash was held by our Canadian subsidiary, E.D. Smith, in short term investments as cash and cash equivalents, and will be used for general corporate purposes in Canada, including capital projects and acquisitions. Repayment of the intercompany loans did not impact the Company s compliance with loan covenants and did not significantly impact the Company s access to liquidity.

Seasonality

The Company s short-term financing needs are primarily for financing working capital during the year. As the Company continues to add new product categories to our portfolio, spikes in financing needs are lessened. Vegetable and fruit production are driven by harvest cycles, which occur primarily during the spring and summer as inventories of pickles and jams generally are at a low point in late spring and at a high point during the fall, increasing our working capital requirements. In addition, the Company builds inventories of salad dressings in the spring and soup in the summer months in anticipation of large seasonal shipments that begin in the second and third quarters, respectively. Non-diary creamer inventory builds in the fall for the expected winter sales.

Sources of Capital

Revolving Credit Facility The Company is party to an unsecured revolving credit facility with an aggregate commitment of $750 million, with Bank of America, N.A., as administrative agent, and a group of other participating lenders. The revolving credit facility matures September 23, 2016. The interest rates under the Credit Agreement are based on the Company s consolidated leverage ratio, and are determined by either LIBOR plus a margin ranging from 1.00% to 1.60%, or a base rate (as defined in the Credit Agreement) plus a margin ranging from 0.00% to 0.60%. In addition, a facility fee ranging from 0.25% to 0.40% is due quarterly on the aggregate commitment under the revolving credit facility. Of the Company s aggregate commitment under the Credit Agreement of $750 million, $346.2 million was available as of December 31, 2012. As of December 31, 2012, there were $10.8 million in letters of credit under the revolving credit facility that were issued but undrawn. The revolving credit facility contains various financial and other restrictive covenants and requires that the Company maintains certain financial ratios, including a leverage and interest coverage ratio. The Company is in compliance with all applicable covenants as of December 31, 2012. From an interest coverage ratio prospective, the Company s ratio is nearly 50% higher than the minimum required level. As it relates to the leverage ratio, the Company was nearly 11% below the maximum level (where the maximum level is not increased in the event of an acquisition). At this time next year, assuming no acquisitions, the Company expects that its leverage ratio will be nearly 30% below the maximum level, indicating another year of strong cash flows. The Company s average interest rate on debt outstanding under the revolving credit facility for the year ended December 31, 2012 was 1.70%. Interest is payable quarterly or at the end of the applicable interest period.

The Credit Agreement 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 Agreement prohibits certain agreements restricting the ability of our subsidiaries to make certain payments or to guarantee our obligations under the Credit Agreement. Our revolving credit facility permits the Company to issue dividends, provided that the Company is not in default at the time of the declaration and payment of such dividends. Furthermore, the declaration and payment of dividends must not result in default by the Company. Our revolving credit facility requires that we maintain a certain level of available liquidity (as defined) before and after dividends are declared and paid.

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High Yield Notes The Company s 7.75% high yield notes in aggregate principal amount of $400 million are due March 1, 2018. The High Yield Notes are guaranteed by the Company s 100 percent owned subsidiary Bay Valley and its 100 percent owned subsidiaries EDS Holdings, LLC; Sturm; and S.T. Foods and certain other of the Company s subsidiaries that may become guarantors from time to time in accordance with the applicable Indenture and may fully, jointly, severally and unconditionally guarantee the Company s payment obligations under any series of debt securities offered. The Indenture governing the High Yield Notes provides, among other things, that the High Yield Notes will be senior unsecured obligations of the Company. The Indenture contains various restrictive covenants of which the Company is in compliance as of December 31, 2012.

Senior Notes The Company maintains 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. The Note Purchase Agreement contains covenants that will limit the ability of the Company and its subsidiaries to, among other things, merge with other entities, change the nature of the business, create liens, incur additional indebtedness or sell assets. The Note Purchase Agreement also requires the Company to maintain certain financial ratios. The Company is in compliance with the applicable covenants as of December 31, 2012. All of the Company s obligations under the senior notes are fully and unconditionally guaranteed by Bay Valley, a 100 percent owned subsidiary of the Company, and its 100 percent owned subsidiaries of EDS Holdings, LLC, Sturm and S.T. Foods. The senior notes have not been registered under the 1933 Act, and may not be offered or sold in the United States, absent registration or an applicable exemption. Interest is paid semi-annually on March 31 and September 30. The Company will continue to classify these notes as long-term, as the Company has the ability and intent to refinance them on a long-term basis using the revolving credit facility or other long-term financing arrangements.

Tax Increment Financing The Company owes $2.1 million related to redevelopment bonds pursuant to a Tax Increment Financing Plan and has agreed to make certain payments with respect to the principal amount of the bonds through May 2019.

Contractual Obligations

The following table summarizes the Company s obligations and commitments to make future payments as of December 31, 2012:

Indebtedness, Purchase and Lease Obligations

		Payments Due by Period			
	Total	**Year 1**	**Years 2 3**	**Years 4 5**	**More Than 5 Years**
			(In thousands)		
Revolving credit facility (1)	$ 417,289	$ 6,406	$ 12,812	$ 398,071	$
High yield notes (2)	570,500	31,000	62,000	62,000	415,500
Senior notes (3)	110,988	6,438	3,260	101,290	
Capital lease obligations (4)	5,888	2,109	3,023	756	
Purchasing obligations (5)	445,553	334,056	96,518	9,793	5,186
Operating leases (6)	95,406	18,099	31,774	24,917	20,616
Benefit obligations (7)	35,410	3,659	6,185	6,676	18,890
Deferred compensation (8)	7,960	250	844	3,408	3,458
Unrecognized tax benefits (9)	9,889	3,158	6,407	324	
Tax increment financing (10)	2,618	381	764	762	711
Severance (11)	1,610	1,610			
Total	$ 1,703,111	$ 407,166	$ 223,587	$ 607,997	$ 464,361

(1) Revolving credit facility obligation includes principal of $393.0 million and interest at an average rate of 1.63% at December 31, 2012. The principal is due September 23, 2016. (See Note 10)

(2) High yield notes include principal and interest payments based on a fixed interest rate of 7.75%. Principal payment is due March 1, 2018. (See Note 10)
(3) Senior notes obligation includes principal and interest payments based on a fixed interest rate of 6.03% through the maturity on September 30, 2013. The Company has the ability and intent to refinance these notes on a long-term basis using the revolving credit facility or other long-term financing arrangement. After initial maturity on September 30, 2013, interest payments and maturity will be based on our revolving credit facility that had an average interest rate of 1.63% at December 31, 2012 and a maturity date of September 23, 2016. (See Note 10)
(4) Payments required under long-term capitalized lease contracts.
(5) 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.
(6) In accordance with generally accepted accounting principles (GAAP), these obligations are not reflected in the accompanying balance sheets. Operating lease obligations consist of minimum rental payments under non-cancelable operating leases.
(7) Benefit obligations consist of future payments related to pension and postretirement benefits as estimated by an actuarial valuation.
(8) Deferred compensation obligations have been allocated to payment periods based on existing payment plans for terminated employees and the estimated timing of distributions to current employees based on age.
(9) The unrecognized tax benefit long term liability recorded by the Company is $9.9 million at December 31, 2012. The timing of cash settlement, if any, cannot be reasonably estimated. The Company s gross unrealized tax benefit included in the tabular reconciliation (See Note 9 to our Consolidated Financial Statements) is approximately $9.5 million. The difference between the gross unrecognized tax benefit and the amount per the Contractual Obligations Indebtedness, Purchase and Lease Obligations table is due to the inclusion above of corollary positions, interest, penalties, as well as the impact of state taxes on the federal tax liability. Deferred tax liabilities are excluded from the table due to uncertainty in their timing.
(10) Tax increment financing obligation includes principal and interest payments based on rates ranging from 6.71% to 7.16%. Final payment is due May 1, 2019. (See Note 10)
(11) Minimum severance payments associated with the closing of the Seaforth, Ontario, Canada facility.

In addition to the commitments set forth in the above table, at December 31, 2012, the Company had $10.8 million in letters of credit related to the Company s workers compensation program.

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 neither have nor 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 17 to our Consolidated Financial Statements for more information about the Company s commitments and contingent obligations.

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Critical Accounting Policies

Critical accounting policies are defined as those most important to the portrayal of a company s financial condition and results, and require the most difficult, subjective or complex judgments. In many cases the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles (GAAP) with no need for the application of our judgment. In certain circumstances, however, the preparation of the Consolidated Financial Statements in conformity with GAAP 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 significant 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 a combination of historical rolling twelve month average program activity and historical customer sales, and can fluctuate due to the level of sales and marketing programs, and timing of deductions. This allowance was $15.0 million and $13.1 million, at December 31, 2012 and 2011, 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 $7.9 million and $5.6 million at December 31, 2012 and 2011, respectively.

Goodwill and Intangible Assets Goodwill and intangible assets totaled $1,491 million as of December 31, 2012, 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