

TreeHouse Foods, Inc.
Form 10-K
February 26, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2008
- Or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from to

Commission File Number 001-32504

TreeHouse Foods, Inc.

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

Delaware

*(State or other jurisdiction of
incorporation or organization)*

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

(Address of principal executive offices)

20-2311383

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

60154

(Zip Code)

Registrant's telephone number, including area code

(708) 483-1300

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value	New York Stock Exchange

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

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

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

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

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

The aggregate market value of the Registrant's common stock held by non-affiliates as of June 30, 2008, based on the \$24.26 per share closing price on the New York Stock Exchange on such date, was approximately \$745.5 million. Shares of common stock held by executive officers and directors of the registrant have been excluded from this calculation because such persons may be deemed to be affiliates.

The number of shares of the registrant's common stock outstanding as of February 13, 2009 was 31,547,500.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on April 30, 2009 are incorporated by reference into Part III of this Form 10-K.

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PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information in this Form 10-K may constitute forward-looking statements within the meaning of the Private Securities Litigation Act of 1995. The words believe, except, anticipate, plan, intend, foresee, would, could or other similar expressions are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those described in (1) Part I, Item 1A Risk Factors and elsewhere in this Form 10-K, (2) our reports and registration statements filed from time to time with the SEC and (3) other announcements we make from time to time.

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.

Item 1. Business

Introduction

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

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

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

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

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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, including for repackaging in portion control packages and for use as ingredients by other food manufacturers.

Effective January 1, 2008, we realigned the manner in which the business is managed and now focus on operating results based on channels of distribution, which has resulted in a change to the operating and reportable segments. Previously, we managed our business based on product categories. Our change in

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operating and reportable segments from product categories to channel of distribution is consistent with management's long-term growth strategy and was necessary due to the acquisitions that occurred during 2007. The change in operating and reportable segments will permit the Company to integrate future acquisitions more efficiently and provide our investors with greater comparability to our peer group, as many of them also present results based on channels of distribution.

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

Our North American Retail Grocery segment sells branded and private label products to customers within the United States and Canada. These products include non-dairy powdered creamer; condensed and ready to serve soups, broths and gravies; baby food; salad dressings and sauces; pickles, peppers and relishes; Mexican sauces; and jams, pie fillings and aseptic products. Brand names sold within the North American Retail Grocery segment include the following pickle brands, *Farman*®, *Nalley*®, *Peter Piper*®, and *Steinfeld*®. Also sold are brands related to sauces and syrups, *Bennet*®, *Hoffman House*®, *Roddenberry's Northwood*® and *San Antonio Farms*®. Infant feeding products are sold under the *Nature's Goodness*® brand, while our non-dairy powdered creamer is sold under our proprietary *Cremora*® brand. Our refrigerated products are sold under the *Mocha Mix*® and *Second Nature*® brand names, and our jams and other sauces are sold under the *E.D. Smith*® and *Habitant*® brand names.

Our Food Away From Home segment sells non-dairy powdered creamers, pickle products, salsas, aseptic and refrigerated products, and sauces to food service 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. Export sales are primarily to industrial customers.

See Note 23 to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations for information related to the Company's business segments.

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

Business Strategy

Our strategy is to optimize our current business and grow through acquisitions.

Optimize the Current Business

Improve marketing strategies in an effort to increase sales to national accounts. While we have high private label market share in the United States for our non-dairy powdered creamer, soup, salad dressing and pickles and high branded and private label market share in jams in Canada, we still have significant potential for growth with several key national retailers and foodservice customers that we either do not currently serve, or that we currently serve in a limited manner. We intend to focus on gaining these customers, and expanding our

relationships with existing customers, by improving our marketing strategies through more sophisticated account planning and customer targeting. We believe the acquisition of E.D. Smith will open opportunities for our U.S. based business, as well as open new distribution channels for E.D. Smith's product portfolio.

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Further expand our cost advantage. Although we are a low cost producer, we believe that there are additional cost savings opportunities that exist in our operations. We intend to pursue these opportunities by improving supply chain efficiency, including manufacturing, sourcing and distribution.

Improve returns. We measure the business by means of EVA (Economic Value Added) and use the analysis to develop and execute a Portfolio Strategy that allows us to focus our resources on those segments and channels where we can generate a high return.

Grow Through Acquisitions

Build on current business core competencies. We believe our core competency is our low cost manufacturing capability and our ability to service our customers efficiently with a single order, invoice and shipment. We expect to focus on acquisitions within our current product categories, as well as adjacent categories.

Develop new platforms for the private label and foodservice markets. Both the private label retail and foodservice markets are growing faster than the branded retail grocery markets, yet the manufacturer base is highly fragmented. With the retailer consolidation, we believe that retailers will place increased emphasis on reducing supply chain complexity and costs. While our platform focus is on shelf stable products, we will also explore new platforms in frozen and refrigerated products for both retail and foodservice.

Our Products

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

The following table sets forth our consolidated net sales by business segments and products, for the year ended December 31, 2008:

Product	Business Segments							
	North American		Food Away		Industrial and		Total	
	Net Sales	% of Product Sales	Net Sales	% of Product Sales	Net Sales	% of Product Sales	Net Sales	% of Product Sales
	(Dollars in thousands)							
Non-dairy powdered creamer	\$ 160,770	17.5%	\$ 6,005	2.0%	\$ 185,063	63.9%	\$ 351,838	23.4%
Soup and infant feeding	268,293	29.3			68,226	23.6	336,519	22.4
Pickles	155,456	17.0	162,670	55.3	7,453	2.6	325,579	21.7
Salad dressings	154,281	16.8	440	0.1	2,163	0.7	156,884	10.5
Jams and other sauces	128,490	14.0	25,437	8.7			153,927	10.3

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Aseptic	5,455	0.6	69,396	23.6	8,347	2.9	83,198	5.5
Mexican sauces	33,358	3.6	11,926	4.1	7,434	2.6	52,718	3.5
Refrigerated	10,999	1.2	18,146	6.2	10,842	3.7	39,987	2.7
Total	\$ 917,102	100.0%	\$ 294,020	100.0%	\$ 289,528	100.0%	\$ 1,500,650	100.0%

Non-Dairy Powdered Creamer Non-dairy powdered creamer is produced from soybean oil, casein (a milk protein) and corn syrup. It is used as coffee creamer or whitener and as an ingredient in baking, beverages and gravy mixes and similar products.

Product offerings in this product category include private label products packaged for retailers, such as supermarkets and mass merchandisers, foodservice products for use in coffee service and other industrial applications, including repackaging in portion control packages and as an ingredient by other food

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manufacturers. We also manufacture and sell the *Cremora*[®] brand of non-dairy powdered creamer. Non-dairy powdered creamer represented 23.4% of our consolidated net sales, for the year ended December 31, 2008.

Soup and Infant Feeding Soup, broth and gravy are manufactured using vegetables, meats and other ingredients which are sourced from outside suppliers. Our products are packaged in cans of various sizes, from single serve to larger sized cans. TreeHouse also manufactures infant feeding products at the Pittsburgh plant, primarily under the *Nature's Goodness*[®] brand. The majority of *Nature's Goodness*[®] products are manufactured by TreeHouse in glass jars, with co-packers producing a variety of cereals and juice products. Infant feeding products are developed and marketed around the different stages of a baby's development. *Nature's Goodness*[®] products are all natural and are produced under very tight quality control, from sourcing of raw materials through glass handling and finished product processing. In 2008, the majority of the soup and infant feeding sales were to the retail channel and represented 22.4% of our consolidated net sales.

Pickles We produce a variety of products at our pickle production facilities, including pickles, peppers, pickled vegetables, jalapeno peppers, pepperoncini peppers, sliced banana peppers and pickled okra. We also include sauces and syrups in our pickles product category. These products are sold to the retail, foodservice and industrial markets. Pickles and related products represented approximately 21.7% of our consolidated net sales in 2008.

Salad Dressings We produce both pourable and spoonable salad dressings. Our salad dressings are sold primarily to supermarkets and mass merchandisers throughout the United States and Canada, and encompass many different flavor varieties. We believe we are the largest supplier of private label salad dressings in both the United States and Canada. Salad dressings represented 10.5% of our consolidated net sales in 2008.

Jams and other sauces We produce jams, pie fillings and other sauces at our Winona, Ontario facility. These products are sold to supermarkets, mass merchandisers and foodservice customers in the United States and Canada, and represented 10.3% of our consolidated net sales in 2008.

Aseptic Products Aseptic products are processed under heat and pressure in a sterile production and packaging environment, creating a product that does not require refrigeration prior to use. Our principal aseptic products are cheese sauces and puddings. These products are sold primarily in the foodservice market in cans and flexible packages. Aseptic products represented 5.5% of our consolidated net sales in 2008.

Other products Our San Antonio plant, produces Mexican sauces, including salsa, picante sauce, cheese dip, enchilada and taco sauces, which are sold to retail and foodservice customers. We also make refrigerated salad dressings at our California facility for sale in the retail and foodservice markets. Each of these product lines represented less than 5% of our consolidated net sales in 2008.

Marketing, Sales and Distribution

We sell our products through various distribution channels, including retail grocery, foodservice distributors and industrial, including food manufacturers and repackagers of foodservice products. We have an internal sales force that manages customer relationships and also manages our broker network, which is used for sales to retail and foodservice accounts. Industrial food products are generally sold directly to customers without the use of a broker. Most of our customers, including long-standing customers, purchase products from us either by purchase order or pursuant to contracts that generally are terminable at will. We have many customer supply arrangements that are not evidenced by written agreements.

In 2008, sales to retailers, foodservice and industrial and export customers represented 61.1%, 19.6% and 19.3%, respectively, of our consolidated net sales.

A relatively limited number of customers account for a large percentage of our consolidated net sales. For the year ended December 31, 2008, our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 15.1% of our consolidated net sales. No other customer accounted for 10% or more of the Company's consolidated net sales.

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

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

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.

Seasonality

Demand for our products does not vary significantly by quarter. However, sales of soup products have a higher percentage of sales in the fourth quarter and lower sales in the second quarter. Pickles tend to have higher sales in the second quarter and non-dairy powdered creamer tends to have higher sales in the fourth quarter.

Raw Materials

Raw materials used in our operations include processed vegetables and meats, soybean oil, coconut oil, casein, cheese, corn syrup, cucumbers, peppers and fruit. These raw materials 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 raw materials to be generally available from a number of suppliers.

The most important packaging materials used in our operations are glass, 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, with the exception of glass, which we procure through a long-term supply contract that expires in December 2010.

Certain of our raw materials are purchased under long-term contracts in an attempt to guarantee supply and in order to obtain lower costs. The prices of our raw materials increase and decrease based on supply and demand, and other factors. We are not always able to adjust our pricing to reflect changes in raw materials costs. Volatility in the cost of our raw materials can adversely affect our performance, as price changes often lag behind changes in costs.

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

Working Capital

Our short-term financing needs are primarily for financing working capital during the year. Due to the seasonality of pickle and fruit production, driven by harvest cycles, which occur primarily during late spring and summer, inventories generally are at a low point in late spring and at a high point during the fall, increasing our working capital requirements. In addition, we build inventories of salad dressings in the spring and soup in the summer months in anticipation of large seasonal shipments that begin late in the second and third quarter, respectively. Our long-term financing needs will depend largely on potential acquisition activity. Our revolving credit agreement, plus cash flow from operations, is expected to be adequate to provide liquidity for our planned growth strategy and current operations, and is not expected to be impacted by the current credit crisis. See [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) [Liquidity and Capital Resources](#).

Competition

We have several competitors in each of our operating segments. For sales of private label products to retailers, the principal competitive factors are price, product quality and quality of service. For sales of products to foodservice and industrial and export customers, the principal competitive factors are product quality and specifications, reliability of service and price.

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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 and price. Most of our branded competitors have significantly greater resources and brand recognition than we do.

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

Employees

As of December 31, 2008, our work force consisted of approximately 3,300 full-time employees in the United States and Canada.

For More Information About Us

Our fiscal year ends on December 31. We furnish our stockholders with annual reports containing audited financial reports. As a public company, we regularly file reports and proxy statements with the Securities and Exchange Commission. These reports are required by the Securities Exchange Act of 1934 and include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8K, and proxy statements on Schedule 14A. Anyone may read and copy any of the materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington DC, 20549; information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains our report, proxy and information statements, and our other SEC filings. The SEC's internet address is <http://www.sec.gov>. We make our SEC filings available on our own internet site as soon as reasonably practicable after they have been filed with the SEC. Our internet address is <http://www.treehousefoods.com>.

The information on our website is not incorporated by reference into this annual report on Form 10-K.

Corporate Governance

Our Code of Ethics, which is applicable to all of our employees and directors, is available on our corporate website at <http://www.treehousefoods.com>, along with the Corporate Governance Guidelines of our Board of Directors and the charters of the Committees of our Board of Directors. Any waivers that we may grant to our executive officers or directors under the Code of Ethics, and any amendments to our Code of Ethics, will be posted on our corporate website. Any of these items or any of our filings with the Securities and Exchange Commission are available in print to any shareholder who requests them. Requests should be sent to Investor Relations, TreeHouse Foods, Inc., Two Westbrook Corporate Center, Suite 1070, Westchester, IL 60154.

We submitted the certification of our chief executive officer required by Section 303A.12 of the NYSE Listed Company Manual, relating to our compliance with the NYSE's corporate governance listing standards, on June 2, 2008 without qualification. In addition, we have included the certifications required of our chief executive officer and our chief financial officer by Section 302 of the Sarbanes-Oxley Act of 2002 and related rules with respect to the quality of our disclosures in our Form 10-K for the year ended December 31, 2008, as Exhibits 31.1 and 31.2, respectively, to this Form 10-K.

Item 1A. Risk Factors

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

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

As of December 31, 2008, we had \$472.0 million of outstanding indebtedness under our \$100 million senior notes private placement, which expires on September 30, 2013 and our \$600 million revolving credit agreement, which expires August 31, 2011. The inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our debt obligations on commercially reasonable terms, would have a material adverse effect on our business, financial condition, and results of operations. In addition, the inability to access additional borrowing at commercially reasonable terms could affect our ability to pursue additional acquisitions. U.S. credit markets have recently experienced significant dislocations and liquidity disruptions which have caused credit spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in debt markets, making financial terms for borrowers less attractive, and in certain cases have resulted in the unavailability of certain types of debt refinancing. Continued uncertainty in the credit markets may negatively impact our ability to access additional debt financing or to refinance existing indebtedness on favorable terms, or at all. Events affecting the credit markets have also had an adverse effect on other financial markets in the U.S., which may make it more difficult or costly for us to raise capital through the issuance of common stock or other equity securities. Any of these risks could impair our ability to fund our operations or limit our ability to expand our business and could possibly increase our interest expense, which could have a material adverse effect on our financial results.

Increases in interest rates may negatively affect earnings.

We had outstanding variable rate debt of \$372.0 million with an average interest rate of 1.80% as of December 31, 2008, which accounts for approximately 78.2% of our total debt outstanding at December 31, 2008. In October, 2008, we entered into an interest rate swap for two years, with an effective date of November 19, 2008, at a fixed rate of 2.9% on \$200 million of our variable rate debt which effectively results in an average interest rate of 3.06% on our variable rate debt at December 31, 2008. However, as we still have a significant portion of variable rate debt, we may still experience interest rate volatility. Increases in interest rates we pay on our variable rate debt could materially affect our earnings.

Fluctuations in foreign currencies may adversely affect earnings.

The Company is exposed to fluctuations in foreign currency exchange rates primarily related to raw material purchases. We are also exposed to fluctuations in the value of our foreign currency investment in our Canadian subsidiary, E.D. Smith. Additionally, input costs for certain Canadian sales are denominated in U.S. dollars, further impacting the effect foreign currency fluctuations may have on the Company.

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

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

A limited number of customers represent a large percentage of our consolidated net sales. Our operating results are contingent on our ability to maintain our sales to these customers. The competition to supply products to these high volume customers is very high. We expect that a significant portion of our net sales will continue to be derived from a small number of customers. 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.

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

The costs of raw materials, as well as packaging materials and fuel, have varied widely in recent years, and future changes in such costs may cause our results of operations and our operating margins to fluctuate significantly. Many of the raw materials used in our products rose to unusually high cost levels during 2008 and 2007, including processed vegetables and meats, soybean oil, casein, cheese and packaging materials. In addition, fuel costs, which represent the most significant factor affecting utility costs at our production facilities and our transportation costs have fluctuated widely over the last twenty-four months. Furthermore, certain input requirements, such as glass used in packaging, are available only from a limited number of suppliers.

Changes in the prices of our products may lag behind changes in the costs of our materials. Competitive pressures also may limit our ability to quickly raise prices in response to increased raw materials, packaging and fuel costs. Accordingly, if we are unable to increase our prices to offset increased raw material, packaging and fuel costs, our operating profits and margins could be adversely affected. In addition, during periods of falling costs of inputs, customers may request price decreases from us in situations where we have made forward purchases of key inputs at higher costs than the current market.

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

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

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 and price. Most of our branded competitors have significantly greater resources and brand recognition than we do.

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

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

Consistent with our stated strategy, our future growth depends, in large part, on our acquisition of additional food manufacturing businesses, products or processes. As a result, we intend to engage in acquisition activity. 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

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benefits. Acquisitions may not be accretive to our earnings and may negatively impact our results of operations as a result of, among other things, the incurrence of debt, one time write-offs of goodwill and amortization expenses of other intangible assets. In addition, future acquisitions could result in dilutive issuances of equity securities.

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

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

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

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

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

Currently, approximately 51% of our full time distribution, production and maintenance employees are covered by collective bargaining agreements with the International Brotherhood of Teamsters, United Food and Commercial Workers Union, or Retail, Wholesale and Department Store Union Central States Council. In addition, approximately 25% of the labor force is covered by agreements that expire within one year. If a dispute with one of these unions or the employees they represent were to arise, production interruptions caused by work stoppages could occur. If a strike or work stoppage were to occur, our business, financial condition and results of operations could be adversely affected.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

We currently operate seventeen production facilities, the majority of which are owned except for the facility in City of Industry, California, which is leased under an agreement that expires in September 2016; the Mendota, Illinois facility, which is leased from Del Monte Corporation under an agreement that expires in April 2035; the Springfield, Missouri facility, which is leased from Bell Carter under an agreement that expires in May 2009 and the Cambridge, Ontario facility, which is leased under an agreement that expires in December 2009. We believe that these facilities are suitable for our operations and provide sufficient capacity to meet our requirements for the foreseeable future. On November 3, 2008, the Company announced plans to

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close the Cambridge, Ontario production facility by July 2009. The following chart lists the location and principal products produced at our production facilities:

Facility Location

Principal Products