TreeHouse Foods, Inc.
Form 10-K
February 20, 2018
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 EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2017

Or

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

Commission File Number 001-32504

TreeHouse Foods, Inc.

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

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

2021 Spring Road, Suite 600

Oak Brook, IL	60523
(Address of principal executive offices)	(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered

Common Stock, $.01 par value   New York Stock Exchange

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

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

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

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

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth 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, 2017, based on the $81.69 per share closing price on the New York Stock Exchange on such date, was approximately $4,585.0 million. Shares of common stock held by executive officers and directors of the registrant have been excluded from this calculation because such persons may be deemed to be affiliates.

The number of shares of the registrant's common stock outstanding as of January 31, 2018 was 56,476,562.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on April 26, 2018 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”, “expect,” “anticipate,” “plan,” “intend,” “foresee,” “should,” “would,” “could” or other similar expressio 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: our level of indebtedness and related obligations; disruptions in the financial markets; interest rates; changes in foreign currency exchange rates; customer consolidation; raw material and commodity costs; competition; integration of the Private Brands acquisition and our ability to continue to make acquisitions in accordance with our business strategy or effectively manage the growth from acquisitions; changes and developments affecting our industry, including customer preferences; the outcome of litigation and regulatory proceedings to which we may be a party; product recalls; changes in laws and regulations applicable to us; disruptions in or failures of our information technology systems; and labor strikes or work stoppages 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 that such statements are made. 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.

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 context specifically states or implies otherwise.

We are a consumer packaged food and beverage manufacturer operating over 50 manufacturing facilities across the United States, Canada, and Italy servicing primarily retail grocery and food away from home customers. We manufacture a variety of shelf stable, refrigerated, fresh, and frozen products. We have a comprehensive offering of packaging formats and flavor profiles, and we also offer natural, organic, and preservative-free ingredients in many categories.

The Company was 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 strategic and bolt-on acquisitions. Our strategy is to be the leading supplier of private label food and beverage products by providing the best balance of quality and cost to our customers. 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,
- branded products under co-pack agreements to other major branded companies for their distributions, and
- products to our industrial customer base for repackaging in portion control packages and for use as ingredients by other food manufacturers.

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

Our reportable segments, and the product categories that make up each segment, are as follows:

Net sales are relatively evenly distributed across segments:

See Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 22 to the Consolidated Financial Statements for financial information by segment.

On April 25, 2017, the Company announced that it had entered into a definitive agreement to sell its canned soup and infant feeding ("SIF") business. The SIF business is based in Pittsburgh, Pennsylvania and produced private label condensed and ready-to-serve soup, baby food, and gravies for the Meals segment. The transaction closed on May 22, 2017 and final working capital adjustments were recorded in the fourth quarter of 2017.

On February 1, 2016, the Company acquired all of the outstanding common stock of Ralcorp Holdings, Inc., the corporation through which the private brands business of ConAgra Foods, Inc. ("Private Brands Business") was operated. The Private Brands Business is a leading manufacturer of private label refrigerated and shelf stable products in the bars, bakery, cereal, condiments, pasta, and snacks categories. Ralcorp Holdings, Inc. was renamed TreeHouse Private Brands, Inc. during the first quarter of 2016.

We operate our business as Bay Valley Foods, LLC ("Bay Valley"), Sturm, S.T. Foods, Cains, Associated Brands, Inc. ("Associated Brands U.S."), Protenergy Natural Foods, Inc. ("Protenergy U.S."), Flagstone Foods ("Flagstone"), TreeHouse Private Brands, Inc., American Italian Pasta Company, Nutcracker Brands, Inc., Linette Quality Chocolates, Inc., Ralcorp Frozen Bakery Products, Inc., Cottage Bakery, Inc., and The Carriage House Companies, Inc. in the United States, E.D. Smith, Associated Brands, Inc. ("Associated Brands Canada"), Protenergy Natural Foods Corporation ("Protenergy Canada"), BFG Canada Ltd., and Western Waffles Corp in Canada, and Pasta Lensi in Italy. Bay Valley is a Delaware limited liability company, and a 100% owned subsidiary of TreeHouse. All operating units are directly or indirectly 100% owned subsidiaries of Bay Valley.

Customers and Distribution

We sell our products through various distribution channels, including grocery retailers, 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 for sales to retail, foodservice, and export 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. Some customers also pick up their orders at our production facilities or distribution centers.

We sell our products to a diverse customer base, including 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 200 retail food customers in North America, including over 50 of the 75 largest non-convenience food retailers.

A relatively limited number of customers account for a large percentage of our consolidated net sales. For the year ended December 31, 2017, our ten largest customers accounted for approximately 60.6% of our consolidated net sales. For the years ended December 31, 2017, 2016 and 2015, our largest customer, Walmart Stores, Inc. and its affiliates, accounted for approximately 22.0%, 18.7%, and 20.7%, respectively, of our consolidated net sales. Costco accounted for approximately 10.3% of consolidated net sales in 2017, with less than 10% in previous years. No other customer accounted for 10% or more of the Company's consolidated net sales. Total trade receivables with Walmart Stores, Inc. and affiliates represented 21.8% and 18.6% of our total trade receivables as of December 31, 2017 and 2016, respectively. Total trade receivables with Costco represented approximately 6.4% of our total trade receivables as of December 31, 2017. The Company had revenues from customers outside of the United States of approximately 8.8%, 8.7%, and 11.9% of total consolidated net sales in 2017, 2016, and 2015, respectively, with 6.8%, 6.9%, and 10.8% from Canada in 2017, 2016, and 2015, respectively. Sales are determined based on the customer destination where the products are shipped.

Backlog

We generally ship our products 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

Our business faces intense competition from large branded manufacturers and highly competitive private label and foodservice manufacturers. In some instances, large branded companies presently manufacture, or in the past have manufactured, private label products. The industries in which we compete are expected to remain highly competitive for the foreseeable future. Our customers do not typically commit to buy predetermined amounts of products, and many retailers utilize bidding procedures to select vendors.

We have several competitors in each of our channels. 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.

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.

Recent trends impacting competition include an increase in snacking and awareness of healthier and “better for you” foods. These trends, together with a surge of specialty retailers who cater to consumers looking for either the highest quality ingredients, unique packaging, products to satisfy particular dietary needs, or value offerings where consumers are looking to maximize their food purchasing power, create pressure on manufacturers to provide a full array of products to meet customer and consumer demand.

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

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 used in the United States include the following pickle brands: Farman’s®, Nalley®, Peter Piper®, Schwartz® , and Steinfeld’s®. Trademarks related to sauces and syrups include Bennett’s®, Hoffman House®, Roddenbery’s Northwoods®, Saucemaker®, and San Antonio Farms®. Powdered coffee creamer is sold under our Cremora® trademark. Single serve hot beverages are sold under the Caza Trail® and Grove Square® trademarks. Snack nuts and trail mixes are sold under the Ann’s House of Nuts®, Amport®, and Goodfields® trademarks. Dry pasta is sold under the Golden Grain®, Anthony’s®, Luxury®, Ronco®, Mueller’s®, and Pennsylvania Dutch® trademarks. In-store bakery products are sold under the Lofthouse® trademark. Our jams and other sauces are sold under the E.D. Smith® and Habitant® trademarks. Branded oatmeal is sold under the McCann’s® trademark. Certain refrigerated dressings and sauces are sold under the Naturally Fresh® trademark. Additionally, certain mayonnaise, dressings, and sauces are sold under the Cains® and Olde Cape Cod® trademarks. Knox® gelatin and J-Cloth® cleaning cloths are brands sold in Canada.

Seasonality

In the aggregate, our sales are weighted slightly toward the second half of the year, particularly the fourth quarter, with a more pronounced impact on profitability. As our product portfolio has grown, we have shifted to a higher percentage of cold weather products. Products that show a higher level of seasonality include non-dairy powdered creamer, coffee, specialty teas, cappuccinos, hot cereal, saltine and entertainment crackers, in-store bakery items, refrigerated dough products, and certain pasta products, all of which generally have higher sales in the first and fourth quarters. Additionally, sales of broth and snack nuts are generally higher in the fourth quarter. Warmer weather products such as dressings, pickles, and condiments typically have higher sales in the second quarter, while drink mixes generally show higher sales in the second and third quarters. As a result of our product portfolio and the related seasonality, our financing needs are generally highest in the second and third quarters due to inventory builds, while cash flow is highest in the fourth and first quarters following the seasonality of our sales.

Foreign Operations and Geographic Information

Foreign sales information is set forth in Note 22 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 casein, cheese, cocoa, coconut oil, coffee, corn and corn syrup, cucumbers, eggs, fruit, non-fat dry milk, nuts (almonds, cashews, peanuts, and pecans), oats, palm oil, peppers, processed meats, rice, soybean oil, sugar, tea, tomatoes, and wheat (including durum wheat). These ingredients are generally 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 generally are available from a number of suppliers. The cost of raw materials used in our products may fluctuate due to weather conditions, regulations, fuel prices, energy costs, labor disputes, transportation delays, political unrest, industry, general U.S., and global economic conditions, or other unforeseen circumstances. The most important packaging materials and supplies used in our operations are glass, plastic, corrugated containers, linerboard cartons, metal closures, metal cans, and composite cans. Most packaging materials are purchased under long-term supply contracts. We believe these packaging materials are generally available from a number of suppliers. Volatility in the cost of our raw materials and packaging supplies can adversely affect our performance, as price changes often lag behind changes in costs, and we are not always able to adjust our pricing to reflect changes in raw material and supply costs.

For additional discussion of the risks associated with the raw materials used in our operations, see Part 1, Item 1A – Risk Factors and Item 7 - Known Trends and Uncertainties.

Working Capital

Our short-term financing needs are primarily for financing working capital and are generally highest in the second and third quarters as inventory levels increase relative to other quarters, due to the seasonal nature of our business. As discussed in the Seasonality section, as our product portfolio has grown, we have shifted to a higher percentage of cold weather products, resulting in inventory builds in the second and third quarters, as the Company prepares for the fall and winter months. As a result of our product portfolio and the related seasonality, our financing needs are generally highest in the second and third quarters, while cash flow is highest in the fourth and first quarters following the seasonality of our sales.

Research and Development

Research and development includes a variety of activities such as formula and recipe development, sample preparation, plant trials, ingredient evaluations, packaging material assessments and approvals, and other technology development and appraisals. These activities are focused on new product development, improvement of existing products, and packaging. Activities are conducted at centralized research and development facilities as well as most manufacturing facilities. Research and development expense totaled $30.8 million, $29.6 million, and $14.3 million in 2017, 2016, and 2015, respectively, and is included in the General and administrative line of the Consolidated Statements of Operations.

Employees

As of December 31, 2017, our work force consisted of approximately 13,489 full-time employees, with 11,466 in the United States, 1,924 in Canada, and 99 in Italy.

Regulatory Environment and Environmental Compliance

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

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

The cost of compliance with national and international 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 15, 2018

Executive Officer	Age	Title
Sam K. Reed	71	Chairman of the Board of Directors, Chief Executive Officer and President. Mr. Reed has served as Chief Executive Officer since January 2005 and as President since October 2017.
Matthew J. Foulston	53	Executive Vice President, Chief Financial Officer since December 2016.
Thomas E. O'Neill	62	Executive Vice President since July 2011. General Counsel, Chief Administrative Officer and Corporate Secretary since January 2005.
Maurice "Moe" Alkemade	50	Senior Vice President, Chief Strategy Officer since April 2017.
Erik T. Kahler	52	Senior Vice President, Corporate Development since October 2006.
Lori G. Roberts	57	Senior Vice President, Human Resources since May 2014.

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. We are not, however, including the information contained on our website, or information that may be accessed through links to our website, as part of, or

incorporating such information by reference into, this Form 10-K. 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.

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.

Our TreeHouse 2020 restructuring plan could result, from time to time, in the impairment of assets, including goodwill and other intangible assets, and we may not realize some or all of the anticipated benefits of this plan in the anticipated time frame or at all.

On August 3, 2017, the Company announced the TreeHouse 2020 restructuring plan, which will be executed in multiple phases over the next several years. The plan targets a 300 basis point operating margin improvement by the end of 2020 through a comprehensive program of category and customer portfolio management, as well as manufacturing and supply chain optimization. Phase 1 of TreeHouse 2020 consists of the closure of the Company's Brooklyn Park, Minnesota and Plymouth, Indiana facilities as well as the downsizing of the Dothan, Alabama facility. On January 31, 2018, the Company announced its intention to fully close the Battle Creek, Michigan facility. Partial closure of this facility was announced on November 3, 2016. On February 15. 2018 the Company announced its intention to close the Visalia, California facility. TreeHouse 2020 could result, from time to time, in significant financial charges for the impairment of assets, including goodwill and other intangible assets. The calculation of anticipated charges, as well as cost savings and other benefits, resulting from our corporate restructuring are based on estimates and assumptions which are subject to uncertainties. If any of our estimates or assumptions prove to be inaccurate, we may incur greater than expected charges, which could have a material adverse effect on our financial condition and results of operations.

Events and circumstances, such as financial or strategic difficulties, delays and unexpected costs may occur that could result in our not realizing all or any of the anticipated benefits on our expected timetable or at all, and there can be no assurance that any benefits we realize from these restructuring efforts will be sufficient to offset the restructuring charges and other costs that we expect to incur. If our restructuring measures are not successful, we may need to undertake additional cost reduction efforts, which could result in future charges. If we fail to realize the anticipated benefits from these measures, our financial condition and operating results may be adversely affected.

In addition, we expect that our restructuring plan will require a substantial amount of management and operational resources. These and related demands on our resources may divert the Company's attention from existing core businesses, potentially disrupting our operations and adversely affecting our relationships with suppliers and customers. As a result, our financial condition, results of operations or cash flows may be adversely affected.

Our indebtedness and our ability to service our debt could adversely affect our business and financial condition.

As of December 31, 2017, we had $2,574.6 million of outstanding indebtedness, excluding $28.8 million of unamortized deferred financing costs, a $498.8 million term loan (“Term Loan A”) maturing on January 31, 2025, a $897.8 million term loan (“Term Loan A-1” and, together with Term Loan A, the “Term Loans”) maturing on February 1, 2023, $400.0 million of 4.875% notes due March 15, 2022 (the “2022 Notes”), $775.0 million of 6.0% notes due February 15, 2024 (the “2024 Notes”), and $3.1 million of capital lease obligations and other debt. The Revolving Credit Facility (as defined in “Sources of Capital” under Item 7) and the Term Loans are known collectively as the “Credit Agreement.” If new debt is added to our current debt levels, the risks described herein would increase. The degree to which we are leveraged could have adverse consequences to us, limiting management's choices in responding to business, economic, regulatory and other competitive conditions. In addition, our ability to make scheduled payments on or refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures, dispose of material assets or operations, seek additional debt or equity capital, or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations.

Disruptions in the financial markets could impair our ability to fund our operations or limit our ability to expand our business.

United States capital credit markets have experienced volatility, dislocations, and liquidity disruptions that caused tightened access to capital markets and other sources of funding. Capital and credit markets and the U.S. and global economies could be affected by additional volatility or economic downturns in the future. 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. There can be no assurance that future volatility or disruption in the capital and credit markets will not impair our liquidity or increase our costs of borrowing. 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.

Despite our current level of indebtedness, we and our subsidiaries may still be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.

We and our subsidiaries may be able to incur significant additional indebtedness in the future. Although the agreements governing our indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness.

The terms of the agreements governing our indebtedness may restrict our current and future operations.

The agreements governing our indebtedness contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to: incur additional indebtedness and guarantee indebtedness; pay dividends or make other distributions or repurchase or redeem our capital stock; prepay, redeem, or repurchase certain subordinated debt; issue certain preferred stock or similar equity securities; make loans and investments; sell assets; incur liens; enter into transactions with affiliates; enter into agreements restricting our subsidiaries’ ability to pay dividends; and consolidate, merge, sell, or otherwise dispose of all or substantially all of our assets.

In addition, our Credit Agreement requires us to maintain a certain consolidated net leverage ratio tested on a quarterly basis. Our ability to meet these financial covenants can be affected by events beyond our control, and we may be unable to meet the required ratio.

A breach of the covenants or restrictions under the agreements governing our indebtedness could result in an event of default under the applicable indebtedness. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross acceleration or cross default provision applies. In addition, an event of default under the Credit Agreement may permit our lenders to terminate all commitments to extend further credit under those facilities. In the event our lenders or noteholders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness. As a result of these restrictions, we may be:

- limited in how we conduct our business;

- unable to raise additional debt or equity financing to operate during general economic or business downturns; or

- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our strategy. In addition, our financial results, substantial indebtedness and credit ratings could materially adversely affect the availability and terms of our financing.

Increases in interest rates may negatively affect earnings.

As of December 31, 2017, the aggregate principal amount of our debt instruments with exposure to interest rate risk was approximately $1,396.5 million, based on the outstanding debt balance of our Credit Agreement. As a result, higher 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. In June 2016, we entered into $500.0 million of long-term interest rate swap agreements to lock into a fixed LIBOR rate base, beginning on January 31, 2017 and ending on February 28, 2020. As of December 31, 2017, each one percentage point change in LIBOR rates would result in an approximate $9.0 million change in the annual cash interest expense, before any principal payment, on our financial instruments with exposure to interest rate risk, including the impact of the $500.0 million in interest rate swap agreements that were effective in 2017.

Fluctuations in foreign currencies may adversely affect earnings.

The Company is exposed to fluctuations in foreign currency exchange rates. The Company’s foreign subsidiaries purchase various inputs that are based in U.S. dollars; accordingly, the profitability of the foreign subsidiaries are subject to foreign currency transaction gains and losses that affect earnings. We manage the impact of foreign currency fluctuations related to raw material purchases using foreign currency contracts. We are also exposed to fluctuations in the value of our foreign currency investment in our Canadian

subsidiaries, which includes Canadian dollar denominated intercompany notes. We translate the Canadian and Italian assets, liabilities, revenues and expenses into U.S. dollars at applicable exchange rates. Accordingly, we are exposed to volatility in the translation of foreign currency denominated earnings due to fluctuations in the values of the Canadian dollar and euro, which may negatively impact the Company’s results of operations and financial position.

We operate in the highly competitive and rapidly changing food industry.

The food industry is highly competitive, and faces increased competition as a result of consolidation, channel proliferation and the growth of online food retailers and new market participants. 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 sales, which could have a material adverse effect on our business and financial results. Category sales 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, mass merchandiser, or foodservice distributors, 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 point. Either of these outcomes may adversely affect our results of operations. Additionally, competition can impact our ability to pass on increased costs or otherwise increase prices.

As new and evolving distribution channels acquire greater attention with consumers, we will need to evaluate whether our business methods and processes can be utilized or adopted in a manner that permits us to successfully serve these distribution channels. Our inability to offer competitive products to these customer segments could have an adverse impact on our results of operations.

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, quality demands, 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.

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 arise from a small number of customers, consisting primarily of traditional grocery retailers, mass merchandisers, and foodservice operators. For the year ended December 31, 2017, our ten largest customers accounted for approximately 60.6% of our consolidated net sales. For the year ended December 31, 2017, our largest customer, Walmart Stores, Inc. and its affiliates, accounted for approximately 22.0% of our consolidated net sales. Costco accounted for approximately 10.3% of consolidated net sales in 2017. No other customer accounted for 10% or more of the Company’s consolidated net sales. These customers typically do not enter into written contracts with fixed purchase commitments, 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 decline, 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, which has resulted in mass merchandisers and non-traditional grocers, such as ecommerce grocers with direct-to-consumer channels, 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.

Consolidation also increases the risk that adverse changes in our customers' business operations or financial performance will have a corresponding material adverse effect on us. For example, if our customers cannot access sufficient funds or financing, then they may delay, decrease, or cancel purchases of our products, or delay or fail to pay us for previous purchases.

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 are also subject to delays caused by interruptions in production of raw materials based on conditions not within our control. Such conditions include job actions or strikes by employees of suppliers, weather, crop conditions, transportation shortages and interruptions, natural disasters, sustainability issues or other catastrophic events. While individual input cost changes varied throughout the year, with certain costs increasing and others decreasing, input costs were in the aggregate unfavorable in 2017 compared to 2016. We expect the volatile nature of these costs to continue with an overall long-term 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. The price of oil has been particularly volatile recently and there can be no assurance that our hedging activities will result in the optimal price. 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 differential 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. Some of our branded competitors have significantly greater resources and brand recognition than we do.

Competitive pressures or other factors could cause us to lose sales, 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 may not be able to successfully integrate and manage the Private Brands Business.

We acquired the Private Brands Business on February 1, 2016. As a result of this acquisition, the size of our business increased significantly. Our future success depends, in part, on our ability to manage this expanded business, including completing its integration into our existing businesses. The integration process is a multi-year, complex, costly, and time-consuming process. Any failure to manage our expanded business or to realize expected benefits of the acquisition could have an adverse effect on our financial condition, results of operations, or cash flows.

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

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, 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 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 the Company, 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.

In addition, on January 20, 2017, Donald J. Trump was inaugurated as the president of the United States. As a presidential candidate, President Trump expressed apprehension toward existing trade agreements, such as the North American Free Trade Agreement (“NAFTA”). Any changes to NAFTA could impact our Canadian operations. Changes in U.S. political, regulatory and economic conditions or laws and policies governing U.S. tax laws and foreign trade in countries where we or our customers operate, in particular Canada and Italy, could adversely affect our operating results and our business.

The recently passed comprehensive tax reform bill could adversely affect our business and financial condition.

On December 22, 2017, President Trump signed into law new legislation that significantly revises the Internal Revenue Code of 1986, as amended. The newly enacted federal income tax law contains significant changes to corporate taxation, including, but not limited to, a reduction of the corporate tax rate from 35% to 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings, limitation of the deduction for net operating losses to 80% of current year taxable income in respect of net operating losses and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. The changes are effective for tax years beginning after December 31, 2017. Notwithstanding the favorable reduction in the corporate income tax rate, further analysis is required to understand the full impact of the new federal tax law. In addition, it is uncertain if and to what extent various states will conform to the newly enacted federal tax law.

If we are unable to attract, hire or retain key employees or a highly skilled and diverse global workforce, it could have an adverse impact on our business, financial condition and results of operations.

Our continued growth requires us to attract, hire, retain and develop key employees, including our executive officers and senior management team, and maintain a highly skilled and diverse global workforce. We compete to attract and hire highly skilled employees and our own employees are highly sought after by our competitors and other companies. Competition could cause us to lose talented employees, and unplanned turnover could deplete our institutional knowledge and result in increased costs due to increased competition for employees.

On October 29, 2017, Robert B. Aiken, Jr. resigned as President and Chief Operating Officer and Sam K. Reed, Chairman of the Board and Chief Executive Officer, assumed the role of President. We have initiated an external search to recruit a new Chief Executive Officer to succeed Mr. Reed in such capacity which is being led by our Board of Directors. No assurance can be made, however, as to when we will hire a new Chief Executive Officer. The existing management team is actively managing the business in accordance with the business strategy approved by our Board of Directors. However, if we are unable to hire a new Chief Executive Officer in a timely manner, it may adversely impact our ability to execute on our strategic and operational plans.

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, cyber security attacks, and viruses. If we are unable to prevent security breaches, we may suffer business disruption, theft of intellectual property, trade secrets, or customer information and unauthorized access to personnel, customer, or otherwise confidential information. Such unauthorized disclosure of information may lead to financial or reputational damage or penalties, which could cause significant damage to our reputation, affect our relationships with our customers, or lead to claims against the Company or governmental investigations and proceedings, any of which could result in our exposure to material civil or criminal liability and ultimately harm our business. To the extent that our business is interrupted or data is lost, destroyed, or inappropriately used or disclosed, such disruptions could adversely affect our competitive position, relationships with our customers, financial condition, operating results, and cash flows. Any such damage or interruption could have a material adverse effect on our business or cause us to incur additional legal fees and costs. In addition, we may be required to incur significant costs to protect against the damage caused by these disruptions or security breaches in the future.

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

Changes in weather conditions, climate changes, 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, changes in weather could impact consumer demand and our earnings may be affected by seasonal factors including the seasonality of our supplies and such changes in 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.

Disruption of our supply chain or distribution capabilities could have an adverse effect on our business, financial condition, and results of operations.

Our ability to manufacture, move, and sell products is critical to our success. We are subject to damage or disruption to raw material supplies or our manufacturing or distribution capabilities (in particular, to the extent that our raw materials are sourced globally) due to weather, including any potential effects of climate change, natural disaster, fire, terrorism, adverse changes in political conditions or political unrest, pandemic, strikes, import restrictions, or other factors that could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition, 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, collective bargaining agreements cover a significant number of our full-time distribution, production, and maintenance employees. 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 we own, as shown below. We lease our principal executive offices in Oak Brook, Illinois and other office space in Green Bay, Wisconsin; Omaha, Nebraska; Downers Grove, Illinois; St. Louis, Missouri; Pittsburgh, Pennsylvania; St. Paul, Minnesota; and Winona, Ontario, Canada. We believe our owned and leased facilities are suitable for our operations and provide sufficient capacity to meet our requirements for the foreseeable future. See Note 3 to the Consolidated Financial Statements for information regarding restructuring and other margin improvement activities including facility closures. The following chart lists the location and principal products produced (by segment) at our production facilities at December 31, 2017:

Facility Location	Principal Products	Occupancy	Segment
Carollton, Texas	Refrigerated dough	Owned	Baked Goods
Brantford, Ontario, Canada	Frozen griddle	Owned	Baked Goods
Delta, British Columbia, Canada (1)	Frozen griddle	Leased	Baked Goods
Forest Park, Georgia	Refrigerated dough	Owned	Baked Goods
Fridley, Minnesota	In-store bakery	Owned	Baked Goods
Georgetown, Ontario, Canada	Crackers	Owned	Baked Goods
Hanover, Pennsylvania	Pretzels	Owned	Baked Goods
Kitchener, Ontario, Canada	Crackers	Owned	Baked Goods
Lancaster, Pennsylvania	Pretzels	Owned	Baked Goods
Lodi, California	In-store bakery	Owned	Baked Goods
Milwaukee, Wisconsin	Pita chips	Owned	Baked Goods
Ogden, Utah	In-store bakery	Leased	Baked Goods
Princeton, Kentucky	Crackers	Owned	Baked Goods
South Beloit, Illinois	Cookies	Owned	Baked Goods
Tonawanda, New York	Cookies	Owned	Baked Goods
Visalia, California (5)	Pretzels	Owned	Baked Goods
Womelsdorf, Pennsylvania	Candy	Owned	Baked Goods
Cambridge, Maryland	Broths and gravies	Leased	Beverages
Delta, British Columbia, Canada	Specialty tea	Leased	Beverages
Manawa, Wisconsin	Cereal and beverages	Owned	Beverages
New Hampton, Iowa	Non-dairy powdered creamer	Owned	Beverages
Pecatonica, Illinois	Non-dairy powdered creamer	Owned	Beverages
Richmond Hill, Ontario, Canada	Broths and gravies	Leased	Beverages
Wayland, Michigan	Non-dairy powdered creamer	Owned	Beverages
Buckner, Kentucky	Syrups, mayonnaise, preserves, jams, barbeque and other sauces	Owned	Condiments
Chicago, Illinois	Refrigerated foodservice pickles	Owned	Condiments
Atlanta, Georgia	Dressings, sauces, and dips	Owned	Condiments
Ayer, Massachusetts (1)	Mayonnaise, dressings, and sauces	Owned	Condiments
Dixon, Illinois	Aseptic cheese sauces, puddings, and gravies	Owned	Condiments
Faison, North Carolina	Pickles, peppers, relish, and syrup	Owned	Condiments
Green Bay, Wisconsin	Pickles, peppers, relish, and sauces	Owned	Condiments
North East, Pennsylvania	Salad dressings and mayonnaise	Owned	Condiments
Plymouth, Indiana (3)	Pickles, peppers, and relish	Owned	Condiments
San Antonio, Texas	Mexican sauces	Owned	Condiments
Winona, Ontario, Canada	Jams, pie fillings, and specialty sauces	Owned	Condiments
Battle Creek, Michigan (2)	Ready-to-eat cereal	Owned	Meals
Brooklyn Park, Minnesota (3)	Macaroni and cheese and skillet dinners	Owned	Meals
Cedar Rapids, Iowa	Hot cereal	Owned	Meals
Columbia, South Carolina	Dry pasta	Owned	Meals
Excelsior Springs, Missouri	Dry pasta	Owned	Meals
Fara Gera d'Adda, Bergamo, Italy	Dry pasta	Leased	Meals
Kenosha, Wisconsin	Macaroni and cheese and skillet dinners	Owned	Meals
Lancaster, Ohio	Ready-to-eat cereal	Owned	Meals
Medina, New York	Beverages, beverage enhancers, dry dinners, and dry soup	Owned	Meals
Sparks, Nevada	Ready-to-eat cereal	Owned	Meals
Tolleson, Arizona	Dry pasta	Owned	Meals

Verolanuova, Brescia, Italy	Dry pasta	Owned	Meals
Azusa, California (1)	Bars, fruit snacks	Leased	Snacks
Dothan, Alabama (4)	Snack nuts, trail mix	Leased	Snacks
El Paso, Texas	Snack nuts, trail mix	Leased	Snacks
Lakeville, Minnesota	Bars, fruit snacks	Owned	Snacks
Minneapolis, Minnesota	Snacks	Owned	Snacks
Robersonville, North Carolina	Snacks	Leased	Snacks

(1) During 2016, the Company announced the planned closure of these facilities. See Note 3 to the Consolidated Financial Statements for more information regarding these closures.
(2) On November 3, 2016, the Company announced the planned downsizing of this facility. On January 31, 2018, the Company announced the full closure of this facility. See Note 3 to the Consolidated Financial Statements for more information.
(3) On August 3, 2017, the Company announced the planned closure of these facilities. See Note 3 to the Consolidated Financial Statements for more information regarding these closures.
(4) On August 3, 2017, the Company announced the planned downsizing of this facility. See Note 3 to the Consolidated Financial Statements for more information.
(5) On February 15, 2018, the Company announced the planned closure of this facility. See Note 25 to the Consolidated Financial Statements for more information.

Item 3. Legal Proceedings

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

All three complaints make substantially similar allegations (though the amended complaint in Tarara now contains additional detail). Essentially, the complaints allege that TreeHouse, under the authority and control of the individual defendants: (i) made certain false and misleading statements regarding the Company’s business, operations, and future prospects; and (ii) failed to disclose that (a) the Company’s private label business was underperforming; (b) the Company’s Flagstone business was underperforming; (c) the Company’s acquisition strategy was underperforming; (d) the Company had overstated its full-year 2016 guidance; and (e) TreeHouse’s statements lacked reasonable basis. The complaints allege that these actions artificially inflated the market price of TreeHouse common stock during the class period, thus purportedly harming investors. We believe that these claims are without merit and intend to defend against them vigorously.

Since its initial docketing, the Tarara matter has been re-captioned as Public Employees’ Retirement Systems of Mississippi v. TreeHouse Foods, Inc., et al., in accordance with the Court’s order appointing Public Employees’ Retirement Systems of Mississippi as the lead plaintiff. The Public Employees’ defendants have filed a motion to dismiss, which has been fully briefed. The next status date for the Public Employees’ matter is set for March 8, 2018.

Additionally, due to the similarity of the complaints, the parties in Wells and Lavin have entered stipulations deferring the litigation until the earlier of (i) the court in Public Employees’ entering an order resolving defendants’ anticipated motion to dismiss therein or (ii) plaintiffs’ counsel receiving notification of a settlement of Public Employees’ or until otherwise agreed to by the Parties. The next status date in Wells is April 27, 2018. There is no set status date in Lavin

at this time.

On October 29, 2017, Mr. Robert Aiken resigned as the Company's President and Chief Operating Officer. On December 1, 2017, Mr. Aiken filed a demand for arbitration under his employment agreement. Shortly thereafter, the Company filed a counterclaim in arbitration against Mr. Aiken. At this time, no dates have been set for the arbitration and fact discovery has yet to commence.

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

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 2017 and 2016 are provided in the table below:

	2017		2016	
	High	Low	High	Low
First Quarter	$87.99	$70.79	$87.03	$66.30
Second Quarter	90.42	75.43	102.87	85.01
Third Quarter	85.99	65.43	104.53	85.05
Fourth Quarter	68.90	40.26	89.08	62.64

On January 31, 2018, there were 2,368 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, we will retain any earnings 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").

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On November 2, 2017, the Company announced that the Board of Directors adopted a stock repurchase program. The stock repurchase program authorizes the Company to repurchase up to $400 million of the Company's common stock at any time, or from time to time. Any repurchases under the program may be made by means of open market transactions, negotiated block transactions, or otherwise, including pursuant to a repurchase plan administered in accordance with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The size and timing of any repurchases will depend on price, market and business conditions, and other factors. The Company is authorized to enter into an administrative repurchase plan for $50 million of the $400 million in the fourteen months following November 6, 2017. The Company plans to repurchase $50 million of shares through the plan and another $100 million opportunistically (total annual cap of $150 million). Any shares repurchased will be held as treasury stock.

The following table presents the total number of shares of common stock purchased during the fourth quarter of 2017, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase program, and the approximate dollar value of the maximum number of shares that may yet be purchased under the share repurchase program:

Period	Weighted Average	Total Number	Total Number of	Approximate Dollar Value

	Price Paid per Share	of Shares Purchased	Shares Purchased as Part of Publicly Announced Plans or Programs	of Maximum Number of Shares that may yet be Purchased under the Program
		(in millions)		
November 1 through November 30, 2017	$ 42.86	0.1	0.1	$ 395.8
December 1 through December 31, 2017	48.19	0.5	0.5	371.3
Total 2017 Activity	$ 47.33	0.6	0.6	$ 371.3

For the year ended December 31, 2017, the Company repurchased approximately 0.6 million shares of common stock for a total of $28.7 million.

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, 2012 through December 31, 2017. The graph and accompanying table compare the cumulative total stockholders' return on our common stock with the cumulative total return of the S&P MidCap 400 Index, Russell 2000 Index, and the Peer Group Index. Our Current Peer Group includes the following companies based on the similar nature of their business to ours: General Mills, Inc.; Kellogg Co.; Conagra Brands, Inc.; Post Holdings, Inc.; Campbell Soup Co.; McCormick & Co., Inc.; JM Smucker Co.; Cott Corp.; Lancaster Colony Corp.; Flowers Foods, Inc.; The Hain Celestial Group, Inc.; Snyder's-Lance, Inc.; J&J Snack Foods Corp.; B&G Foods, Inc.; Farmer Bros. Co.; Dean Foods; and Pinnacle Foods, Inc. The graph assumes an investment of $100 on December 31, 2012 in each of TreeHouse Foods' common stock, the stocks comprising the S&P MidCap 400 Index, Russell 2000 Index, and the Peer Group Index.

Comparison of Cumulative Total Return of $100 among TreeHouse Foods, Inc., S&P MidCap 400 Index,

Russell 2000 Index, and the Peer Group Index

	Base Period	INDEXED RETURNS Years Ending				
Company Name/Index	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
TreeHouse Foods, Inc.	100	132.21	164.07	150.51	138.48	94.88
S&P MidCap 400 Index	100	133.50	146.54	143.35	173.08	201.20
Russell 2000 Index	100	138.82	145.62	139.19	168.85	193.58
Peer Group	100	122.41	133.28	153.29	172.66	170.19

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, 2017:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (in millions)		(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 millions)
Equity compensation plans approved by security holders:					
TreeHouse Foods, Inc. Equity and Incentive Plan	3.0	(1)	$ 71.46	(2)	5.1
Equity compensation plans not approved by security holders:					
None	—		—		—
Total	3.0		71.46		5.1

(1) Includes 0.7 million restricted stock units and 0.3 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, we have disregarded the restricted stock units and performance units for purposes of computing the weighted-average exercise price.

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Item 6. Selected Financial Data

The following table provides selected financial data as of and for each of the five years in the period ended December 31, 2017. The selected financial data should be read in conjunction with Item 7, and our Consolidated Financial Statements and related Notes.

	Year Ended December 31,				
	2017	2016 (3)	2015	2014 (2)	2013 (1)
	(in millions, except per share data)				
Operating data:					
Net sales	$6,307.1	$6,175.1	$3,206.4	$2,946.1	$2,293.9
Cost of sales	5,223.1	5,049.7	2,562.1	2,339.5	1,818.4
Gross profit	1,084.0	1,125.4	644.3	606.6	475.5
Operating expenses:					
Selling and distribution	402.3	404.8	180.5	174.6	135.0
General and administrative	300.4	340.6	161.7	158.8	121.1
Amortization expense	114.1	109.9	60.6	52.6	35.4
Impairment of goodwill and other intangible assets	549.7	352.2	—	—	—
Other operating expense, net	128.7	14.7	1.8	2.4	5.9
Total operating expenses	1,495.2	1,222.2	404.6	388.4	297.4
Operating (loss) income	(411.2)	(96.8)	239.7	218.2	178.1
Other expense (income):					
Interest expense	126.8	119.2	45.5	42.0	49.3
Interest income	(4.3)	(4.2)	(3.0)	(1.0)	(2.2)
(Gain) loss on foreign currency exchange	(5.0)	(5.6)	26.1	13.4	2.9
Loss on extinguishment of debt	—	—	—	22.0	—
Other income, net	(4.1)	(10.8)	(0.1)	5.2	3.2
Total other expense	113.4	98.6	68.5	81.6	53.2
(Loss) income before income taxes	(524.6)	(195.4)	171.2	136.6	124.9
Income taxes	(238.4)	33.2	56.3	46.7	37.9
Net (loss) income	$(286.2)	$(228.6)	$114.9	$89.9	$87.0
Net (loss) earnings per basic share	$(5.01)	$(4.10)	$2.67	$2.28	$2.39
Net (loss) earnings per diluted share	$(5.01)	$(4.10)	$2.63	$2.23	$2.33
Weighted average shares -- basic	57.1	55.7	43.1	39.3	36.4
Weighted average shares -- diluted	57.1	55.7	43.7	40.2	37.4
Other data:					
Balance sheet data (at end of period):					
Total assets	$5,779.3	$6,545.8	$3,702.8	$3,858.3	$2,693.5
Long-term debt, excluding current portion	2,535.7	2,724.8	1,221.7	1,437.7	934.7
Other long-term liabilities	202.1	202.3	71.6	67.6	40.1
Deferred income taxes	178.4	422.2	279.1	283.9	206.7
Total stockholders' equity	2,263.3	2,503.3	1,854.9	1,759.3	1,273.1

(1) The Company acquired Cains and Associated Brands in 2013.
(2) The Company acquired Protenergy and Flagstone in 2014.
(3) The Company acquired the Private Brands Business in 2016.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations
Executive Overview

We are a consumer packaged food and beverage manufacturer operating over 50 facilities in the United States, Canada, and Italy that has a comprehensive offering of packaging formats and flavor profiles, and we also offer natural, organic, and preservative-free ingredients in many categories. We believe we are the largest manufacturer of private label snack nuts, trail mixes, refrigerated dough, crackers, pickles, salsa, non-dairy powdered creamer, ready-to-eat cereals, bouillon, and dry pasta in the United States, the largest manufacturer of private label pretzels, retail griddle items, powdered drink mixes, retail salad dressings, macaroni and cheese dinners, and instant hot cereals in both the United States and Canada, and the largest manufacturer of private label jams and pasta sauces in Canada, based on volume. We also believe we are one of the largest manufacturers of private label in-store bakery products, cookies, pitas, snack bars, table syrup, flavored syrup, barbeque sauce, preserves, and jellies in the United States, based on volume. We sell our products primarily to the retail grocery and food away from home channels. A majority of our sales are private label products.

According to independent market research studies, it is believed that nearly one in every five products sold in United States supermarkets is a private label product. Additionally, it is expected that private label market share will increase approximately 8% versus branded competitors over the next ten years. This increase is expected to be driven by retailers increasingly emphasizing private label products as a differentiator and margin builder, continued expansion of retailers which focus their business model on private label, and the continued emergence of e-commerce. In 2017, based on available industry data, private label products sold in the retail grocery channel in the United States compete with branded products on the basis of equivalent quality at a lower price. Based on available measured channel data, these private label products comprise the following approximate market share percentages of all products in their respective categories:

Our strategy is to be the leading supplier of private label food and beverage products by providing the best balance of quality and cost to our customers. We intend to grow our business and enhance profitability and customer relationships through the following strategic initiatives:

- Expand partnerships with strategic 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. 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 sales with grocery retailers given our differentiated capabilities, breadth of product offerings, and geographic reach.
- Leverage cross-selling opportunities across customers, sales channels, and geographies. We are a leading manufacturer of private label food products in the United States across many categories, as described above. However, we believe we still have significant potential for growth with grocery retailers and food service distributors that we currently serve in a limited manner, or that do not carry all of the products we offer. 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.
- Drive growth and profitability through effective portfolio management. We believe we can drive growth and profitability through relentless focus on strategic customers and sub-categories. Each customer and sub-category plays a role within our portfolio that guides resourcing and investment decisions. By focusing on areas of our business where we believe we have a competitive advantage and are in-line with consumer trends, while simultaneously simplifying other parts of our business, we can realize the full potential of our product offering.
- Utilize our scale to drive consumer value. As mentioned above, quality is an important factor in the value equation; however, price also plays a significant role. We believe it is important to leverage our scale to continuously drive out unnecessary cost from our value chain. We are in the process of transforming our manufacturing and distribution network to drive out cost, create more agility to better serve emerging channels (e.g. ecommerce), and ensure our products are always available at shelf. TreeHouse 2020 is a transformational initiative with the goal to improve our on-going operating profit and margin structure.
- Improve relevance by pivoting to meet evolving consumer demands. The U.S. retail food industry is quickly evolving driven by a redefinition of “convenience” by consumers. According to Nielsen, the total amount of money consumers spend on food is growing; however, traditional grocers are getting less share. Traditional channel parameters are blurring between retailers and restaurants with the emergence of the “grocerant,” subscription meal kits, pure play e-grocery, and digital meal order and delivery. We believe this disruption will provide an opportunity for us to position our product portfolio to meet the needs of emerging channel thereby growing our share of meal and snacking occasions. We offer a variety of innovative products and flavor profiles in a comprehensive offering of packaging formats that include natural, organic, and preservative free ingredients, that we believe meet the “good, better, and best” needs of both traditional grocers and emerging channels.

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, 2017, 2016, and 2015. 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 Information for a discussion of the uncertainties, risks, and assumptions associated with these statements.

Current Market Environment

Despite the overall strength in the U.S. economy, consumer spending continues to remain challenged. Specifically, retail food volumes continue to be weak compared to overall consumer spending. Based on the Citi DD's Nielsen AOC+C Data Analysis – 12/30/17 report, total retail food sales across the industry decreased (0.2)% in 2017 compared to the same period last year as volume declines (1.9%) were mostly offset by price increases of 1.7%. Branded products continue to be the hardest hit as volumes were (2.9)% lower in 2017 compared to 2016 with favorable pricing offsetting 2.2% of the decline. Comparatively, private label food volumes increased

0.2% year-over-year with a corresponding 2.0% increase in pricing, resulting in sales growth of 2.2%. As such, stable private label industry volumes combined with pricing actions similar to branded counterparts drove favorable sales growth in private label versus branded business. For the first time since 2014, private label food sales outperformed branded food. This resulted in private label gaining approximately 50 basis points of market share in the year.

While overall volume growth continues to be a challenge, certain retail sectors are experiencing growth as consumers continue to shift their consumptions trends towards a focus on premium, better for you, natural, and organic foods (collectively referred to as "PBFY"). PBFY foods include items such as fresh or freshly prepared foods, foods with premium ingredients, natural, organic, clean label, or specialty foods, most of which are located in the perimeter of the store. Recent data shows that these product offerings are expected to be the primary growth area for both branded and private label products, and that growth in private label is expected to drive the overall growth in these product categories. The Company is seeing similar growth in these labels as our PBFY labels (excluding snack nuts and coffee) showed 5.0% and 4.7% volume and sales growth, respectively. These trends are prompting companies to increase or adjust their offerings, while retaining their commitment to provide products at reasonable prices. In an effort to respond to shifting consumer demand, the Company offers an increasing variety of PBFY products, currently offering PBFY products in 26 of our categories. Our mix of these offerings increased from 19.2% of net sales in 2016 to 20.8% in 2017, demonstrating our focus on these growing labels.

Recent Developments

TreeHouse 2020

On August 3, 2017, the Company announced the TreeHouse 2020 program, which is a comprehensive strategic blueprint intended to accelerate long-term growth through optimization of our manufacturing network, transformation of our mixing centers and warehouse footprint, and leveraging of systems and processes to drive performance. TreeHouse 2020 is a multi-year plan to fully integrate the business and reduce its cost structure in order to invest in market-differentiated capabilities, including higher growth potential product categories to serve the rapidly evolving needs of customers which are strategically focused and highly committed to their corporate brands. TreeHouse 2020 is expected to produce significant savings to achieve our operating margin expansion targets creating reinvestment opportunities to drive future growth. Specifically, we are targeting to improve our operating margin structure by approximately 300 basis points by the end of 2020. In the short-term, while we continue to execute on these margin improvement initiatives we might experience modest sales declines due to the rationalization of low margin business.

The TreeHouse 2020 program will be executed in multiple phases over the next several years. The key elements of Phase 1 include the closure of the Company's Brooklyn Park, Minnesota and Plymouth, Indiana facilities, as well as the downsizing of the Dothan, Alabama facility. Production at the Brooklyn Park, Minnesota and Plymouth, Indiana facilities ceased in the fourth quarter of 2017. The facility downsizing at Dothan, Alabama is expected to be complete in the third quarter of 2018. In addition, we have taken steps toward increasing our capacity utilization, operational margin expansion, and streamlining our plant structure to optimize our supply chain. See Note 3 to our Consolidated Financial Statements for additional information regarding restructuring and margin improvement activities.

On January 31, 2018, the Company announced its intention to close its remaining operations in Battle Creek Michigan. In November 2016, the Company announced its initial decision to downsize the Battle Creek facility. Following completion of the first phase of downsizing, it was determined that the remaining operations would not be economically viable. Current production at Battle Creek will be moved to other cereal manufacturing facilities. The decision is consistent with the August 2017 announcement of TreeHouse 2020. The costs to close the remainder of the

Battle Creek facility are expected to be approximately $15.2 million, of which approximately $8.8 million is expected to be in cash. Components of the charges include non-cash asset write-offs of approximately $6.4 million, employee-related costs of approximately $2.4 million, and other closure costs of approximately $6.4 million. Total expected costs to close decreased $14.8 million since the initial announcement due to revised estimates.

On February 15, 2018, the Company announced the planned closure of its Visalia, California facility by the end of the first quarter of 2019. The plant primarily produces pretzels and cereal snack mixes for the Baked Goods segment. Current pretzel production will be moved to other TreeHouse manufacturing facilities prior to the plant closure. The decision is consistent with the August 2017 announcement of TreeHouse 2020. The costs to close the Visalia facility are expected to be approximately $21 million, of which approximately $8 million is expected to be in cash. Components of the charges include non-cash asset write-offs of approximately $13 million, employee-related costs of approximately $3 million, and other closure costs of approximately $5 million.

Sale of the Soup and Infant Feeding Business

On April 25, 2017, the Company announced that it had entered into a definitive agreement to sell its canned soup and infant feeding ("SIF") business. The SIF business was based in Pittsburgh, Pennsylvania and produced private label condensed and ready-to-serve soup, baby food, and gravies for the Meals segment. The transaction closed on May 22, 2017 and working capital adjustments were finalized in the fourth quarter of 2017.

Change in Organizational Structure

In the first quarter of 2017, the Company completed changes in our organizational structure to fully align the structure in the way the business operates and better position the Company for success. Our reportable segments are now organized and managed by products: Baked Goods, Beverages, Condiments, Meals, and Snacks. Previously, our reportable segments were organized and managed by customer channels: North American Retail Grocery, Food Away From Home, and Industrial and Export. This change aligns the Company's reportable segments with the way the business is structured and managed. See Note 22 to our Consolidated Financial Statements for additional information regarding our segments.

Share Repurchase Authorization

On November 2, 2017, the Company announced that the Board of Directors adopted a stock repurchase program. The stock repurchase program authorizes the Company to repurchase up to $400 million of the Company's common stock at any time, or from time to time. Any repurchases under the program may be made by means of open market transactions, negotiated block transactions, or otherwise, including pursuant to a repurchase plan administered in accordance with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The size and timing of any repurchases will depend on price, market and business conditions, and other factors. The Company is authorized to enter into an administrative repurchase plan for $50 million of the $400 million in the fourteen months following November 6, 2017. The Company plans to repurchase $50 million of shares through the plan and another $100 million opportunistically (total annual cap of $150 million). Any shares repurchased will be held as treasury stock.

For the year ended December 31, 2017, the Company repurchased approximately 0.6 million shares of common stock for a total of $28.7 million.

Results of Operations

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

	Year Ended December 31,					
	2017		2016 (1)		2015	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
	(Dollars in millions)					
Net sales	$6,307.1	100.0 %	$6,175.1	100.0 %	$3,206.4	100.0 %
Cost of sales	5,223.1	82.8	5,049.7	81.8	2,562.1	79.9
Gross profit	1,084.0	17.2	1,125.4	18.2	644.3	20.1
Operating expenses:						
Selling and distribution	402.3	6.4	404.8	6.6	180.5	5.6
General and administrative	300.4	4.8	340.6	5.5	161.7	5.0
Amortization expense	114.1	1.8	109.9	1.8	60.6	1.9
Impairment of goodwill and other intangible assets	549.7	8.7	352.2	5.7	—	—
Other operating expense, net	128.7	2.0	14.7	0.2	1.8	0.1
Total operating expenses	1,495.2	23.7	1,222.2	19.8	404.6	12.6
Operating (loss) income	(411.2)	(6.5)	(96.8)	(1.6)	239.7	7.5
Other expense (income):						
Interest expense	126.8	2.1	119.2	1.9	45.5	1.5
Interest income	(4.3)	(0.1)	(4.2)	(0.1)	(3.0)	(0.1)
(Gain) loss on foreign currency exchange	(5.0)	(0.1)	(5.6)	(0.1)	26.1	0.8
Other income, net	(4.1)	(0.1)	(10.8)	(0.2)	(0.1)	—
Total other expense	113.4	1.8	98.6	1.5	68.5	2.2
(Loss) income before income taxes	(524.6)	(8.3)	(195.4)	(3.1)	171.2	5.3
Income taxes	(238.4)	(3.8)	33.2	0.6	56.3	1.7
Net (loss) income	$(286.2)	(4.5)%	$(228.6)	(3.7)%	$114.9	3.6 %

(1) The Company acquired the Private Brands Business in 2016.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Net Sales – Consolidated net sales increased 2.1% to $6,307.1 million for the year ended December 31, 2017, compared to $6,175.1 million for the year ended December 31, 2016. The change in net sales from 2016 to 2017 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2016 Net sales	$6,175.1	
Volume/mix	34.1	0.6 %
Pricing	(4.5)	(0.1)
Product recalls	15.4	0.2
Acquisition/divestiture	81.8	1.3
Foreign currency	5.2	0.1
2017 Net sales	$6,307.1	2.1 %

The change in net sales was primarily due to an additional month of sales from the 2016 acquisition of the Private Brands Business, partially offset by the divestiture of the SIF business in the second quarter of 2017. Favorable volume/mix in the Beverages, Condiments, and Baked Goods segments contributed to the increase in net sales, partially offset by unfavorable volume/mix in Snacks and Meals. Included in net sales was a $5.4 million product recall reimbursement, compared to a $9.9 million cost in 2016, that contributed an increase of 0.2% to net sales year-over-year.

Cost of Sales — Cost of sales as a percentage of consolidated net sales increased to 82.8% in 2017 from 81.8% in the prior year. Included in cost of sales in 2017 was $46.3 million related to restructuring and other margin improvement activities compared to $7.9 million in 2016 and $3.0 million of product recall reimbursement in 2017 compared to expense of $5.7 million in 2016. Also included in cost of sales was $8.4 million of acquisition, integration, divestiture, and related costs in 2016 that did not repeat in 2017. These transactions, coupled with the product recall reimbursement outlined above in net sales, increased cost of sales as a percentage of net sales by 0.6% in 2017 and 0.5% in 2016. The remaining 0.9% increase in cost of sales as a percentage of net sales was primarily due to higher operating costs, higher commodity costs, and unfavorable mix, partially offset by a reduction in variable incentive compensation and depreciation.

Operating Costs and Expenses — Operating expenses increased to $1,495.2 million in 2017 compared to $1,222.2 million in 2016. The increase in 2017 resulted from the following:

Selling and distribution expenses decreased $2.5 million, or (0.6)%, in 2017 compared to 2016. Selling and distribution expenses as a percentage of net sales decreased to 6.4% in 2017, compared to 6.6% in 2016. The decrease was primarily related to a reduction in variable incentive compensation and cost savings in 2017, partially offset by

unfavorable freight rates.

General and administrative expenses decreased $40.2 million, or (11.8)%, in 2017 compared to 2016. This decrease is primarily related to lower acquisition, integration, divestiture, and related costs in 2017. In 2016, the Company incurred approximately $51.5 million of acquisition, integration, divestiture, and related costs primarily related to the Private Brands Business acquisition, compared to $15.8 million in 2017 including debt refinancing costs. Excluding the impact of acquisition, integration, divestiture, and related costs and debt refinancing costs, general and administrative expenses declined (1.5)% year-over-year as a reduction in variable incentive compensation and cost savings more than offset an additional month of Private Brands business.

Amortization expense increased $4.2 million in 2017 compared to 2016, primarily due to the amortization of intangible assets from an additional month of the Private Brands Business.

Impairment of goodwill and other intangible assets was $549.7 million in 2017 compared to $352.2 million in 2016. See Note 9 to our Consolidated Financial Statements for additional information regarding these impairments. The Company recorded impairment losses of $276.4 million related to the Snacks segment's goodwill and $273.3 million related to the Snacks customer lists.

Other operating expense was $128.7 million in 2017 compared to $14.7 million in 2016. The increase was primarily due to a loss on the divestiture of the SIF business, higher costs associated with restructuring and other margin improvement activities that were announced in recent quarters with respect to the TreeHouse 2020 margin improvement plan, and various plant closures. See Note 3 to our Consolidated Financial Statements for additional information regarding restructuring and margin improvement activities.

Interest Expense — Interest expense in 2017 was $126.8 million, an increase of $7.6 million from 2016, due to higher average

interest rates on outstanding debt primarily related to LIBOR interest rate increases.

Interest Income — Interest income of $4.3 million includes $1.6 million of interest income related to annual patronage refunds pertaining to Term Loan A. The patronage refund represents our participation in a capital plan related to our Term Loan A and is an annual payment based on a percentage of our average daily loan balance. The remaining $2.7 million in interest income primarily relates to cash held by our Canadian subsidiaries and gains on investments.

Foreign Currency — The Company's foreign currency impact was a $5.0 million gain in 2017, compared to a gain of $5.6 million in 2016, primarily due to fluctuations in currency exchange rates between the U.S. and Canadian dollar during the respective periods.

Other Income, net — Other income was $4.1 million in 2017, compared to income of $10.8 million in 2016. This balance was due to the non-cash mark-to-market adjustments on derivative contracts, primarily interest rate swap agreements and commodity contracts.

Income Taxes — Income tax benefit was recorded at an effective rate of 45.4% in 2017 compared to (17.0)% in 2016. The Company's effective tax rate differs from the U.S. federal statutory tax rate primarily due to state tax expense, an intercompany financing structure entered into in conjunction with the E.D. Smith Foods, Ltd. ("E.D. Smith") acquisition in 2007, the benefit related to the recognition of foreign tax credits, the impairment of goodwill that is not deductible for tax purposes, and a benefit due to the enactment of the Tax Cuts and Jobs Act.

Our effective tax rate may change from period to period based on recurring and non-recurring factors including the jurisdictional mix of earnings, enacted tax legislation, state income taxes, settlement of tax audits, and the expiration of the statute of limitations in relation to unrecognized tax benefits.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 — Results by Segment

Baked Goods

	Year Ended December 31,			
	2017		2016	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	$1,403.9	100.0 %	$1,288.2	100.0 %
Cost of sales	1,108.0	78.9	1,011.5	78.5
Gross profit	295.9	21.1	276.7	21.5
Freight out and commissions	89.1	6.3	80.6	6.3
Direct selling, general, and administrative	31.3	2.2	33.7	2.6
Direct operating income	$175.5	12.5 %	$162.4	12.6 %

Net sales in the Baked Goods segment increased by $115.7 million, or 9.0%, for the year ended December 31, 2017 compared to the prior year. The change in net sales from 2016 to 2017 was due to the following:

	Dollars (Dollars in millions)	Percent
2016 Net sales	$1,288.2	
Volume/mix	9.8	0.8 %
Pricing	(7.2)	(0.6)
Acquisition/divestiture	112.0	8.7
Foreign currency	1.1	0.1
2017 Net sales	$1,403.9	9.0 %

Net sales increased from 2016 to 2017 mostly due to an additional month of Private Brands Business in 2017 and favorable volume/mix (predominantly in the cracker, dough, and griddle categories), partially offset by unfavorable pricing mostly from competitive pressure.

Cost of sales as a percentage of net sales increased 0.4% in 2017 compared to the prior year, primarily due to higher operating costs partially offset by lower commodity costs (flour, sugar, and eggs).

Freight out and commissions paid to independent sales brokers were $89.1 million in 2017 compared to $80.6 million in 2016, an increase of $8.5 million. The increase is primarily associated with the additional month of Private Brands Business in 2017. Freight and commissions as a percentage of net sales was flat year-over-year.

Direct selling and marketing expenses were $31.3 million in 2017 and $33.7 million in 2016. The decrease in direct selling and marketing expenses as a percentage of net sales was primarily related to cost savings.

Beverages

	Year Ended December 31,			
	2017		2016	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	$1,073.4	100.0 %	$973.0	100.0 %
Cost of sales	781.9	72.8	674.7	69.3
Gross profit	291.5	27.2	298.3	30.7
Freight out and commissions	44.3	4.1	30.2	3.1
Direct selling, general, and administrative	20.3	1.9	23.4	2.5
Direct operating income	$226.9	21.1 %	$244.7	25.1 %

Net sales in the Beverages segment increased by $100.4 million, or 10.3%, for the year ended December 31, 2017 compared to the prior year. The change in net sales from 2016 to 2017 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2016 Net sales	$973.0	
Volume/mix	117.5	12.1 %
Pricing	(14.6)	(1.5)
Acquisition/divestiture	(2.5)	(0.3)
2017 Net sales	$1,073.4	10.3 %

Net sales increased in 2017 compared to 2016 primarily due to favorable volume/mix associated with additional distribution, primarily in the single serve beverage, broth, non-dairy creamer, and tea categories, partially offset by unfavorable pricing due to competitive pressure and lower sales due to the sale of a part of the Tetra re-cart broth business associated with the divestiture of the SIF business in the second quarter of 2017.

Cost of sales as a percentage of net sales increased to 72.8% in 2017 from 69.3% in 2016 primarily due to higher commodity costs (primarily oils and coffee) and unfavorable mix.

Freight out and commissions paid to independent sales brokers increased by $14.1 million in 2017 compared to 2016. Freight out and commissions paid as a percentage of net sales increased year-over-year by 1.0%. The increase was primarily related to increased volume year-over-year and a shift in mix from customer pick-up to delivery.

Direct selling and marketing decreased to $20.3 million in 2017 from $23.4 million in 2016, due to cost savings.

Condiments

	Year Ended December 31,			
	2017		2016	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	$1,300.6	100.0 %	$1,258.1	100.0 %
Cost of sales	1,082.4	83.2	1,021.7	81.2
Gross profit	218.2	16.8	236.4	18.8
Freight out and commissions	55.9	4.3	53.6	4.3
Direct selling, general, and administrative	25.8	2.0	28.7	2.3
Direct operating income	$136.5	10.5 %	$154.1	12.2 %

Net sales in the Condiments segment increased by $42.5 million, or 3.4%, for the year ended December 31, 2017 compared to the prior year. The change in net sales from 2016 to 2017 was due to the following:

	Dollars	Percent	
	(Dollars in millions)		
2016 Net sales	$1,258.1		
Volume/mix	14.0	1.1	%
Pricing	4.5	0.4	
Acquisition/divestiture	19.8	1.6	
Foreign currency	4.2	0.3	
2017 Net sales	$1,300.6	3.4	%

Net sales increased in 2017 compared to 2016 mostly due to an additional month of Private Brands Business in 2017, favorable volume/mix from increased distribution (predominantly in the pickles and dressings categories), and favorable pricing and foreign currency.

Cost of sales as a percentage of net sales increased from 81.2% in 2016 to 83.2% in 2017, primarily due to higher operating costs and higher commodity costs primarily for soybean oil, cucumbers, peppers, and packaging.

Freight out and commissions paid to independent sales brokers were $55.9 million in 2017 and $53.6 million in 2016. Costs remained consistent with sales activity as freight out and commissions as a percentage of net sales was 4.3% for both 2017 and 2016.

Direct selling and marketing decreased to $25.8 million in 2017 from $28.7 million in 2016, primarily due to cost savings.

Meals

	Year Ended December 31,					
	2017			2016		
	Dollars	Percent		Dollars	Percent	
	(Dollars in millions)					
Net sales	$1,189.2	100.0	%	$1,335.2	100.0	%
Cost of sales	970.8	81.6		1,107.4	82.9	
Gross profit	218.4	18.4		227.8	17.1	
Freight out and commissions	51.4	4.3		56.8	4.3	
Direct selling, general, and administrative	29.7	2.5		33.9	2.5	
Direct operating income	$137.3	11.5	%	$137.1	10.3	%

Net sales in the Meals segment decreased by $146.0 million, or 10.9%, for the year ended December 31, 2017 compared to the prior year. The change in net sales from 2016 to 2017 was due to the following:

	Dollars (Dollars in millions)	Percent
2016 Net sales	$1,335.2	
Volume/mix	(50.6)	(3.8)%
Pricing	(13.5)	(1.0)
Acquisition/divestiture	(81.9)	(6.1)
2017 Net sales	$1,189.2	(10.9)%

Net sales decreased from 2016 to 2017 primarily due to the divestiture of the SIF business, unfavorable volume/mix (predominantly in the cereal and pasta categories), and unfavorable pricing related to commodity-based price reductions and competitive pressure, partially offset by an additional month of Private Brands Business in 2017.

Cost of sales as a percentage of net sales decreased from 82.9% in 2016 to 81.6% in 2017, primarily due to favorable mix and lower depreciation, commodity, and operating costs.

Freight out and commissions paid to independent sales brokers were $51.4 million in 2017 and $56.8 million in 2016. Freight out and commissions as a percentage of net sales was flat in 2017 compared to 2016.

Direct selling and marketing decreased to $29.7 million in 2017 from $33.9 million in 2016. Direct selling, general, and administrative expenses as a percentage of net sales was flat in 2017 compared to 2016.

Snacks

	Year Ended December 31,			
	2017		2016	
	Dollars	Percent	Dollars	Percent
	(Dollars in millions)			
Net sales	$1,334.5	100.0 %	$1,330.5	100.0 %
Cost of sales	1,253.8	94.0	1,209.8	90.9
Gross profit	80.7	6.0	120.7	9.1
Freight out and commissions	32.2	2.4	31.4	2.4
Direct selling, general, and administrative	23.0	1.7	23.1	1.7
Direct operating income	$25.5	1.9 %	$66.2	5.0 %

Net sales in the Snacks segment increased by $4.0 million, or 0.3%, for the year ended December 31, 2017 compared to the prior year. The change in net sales from 2016 to 2017 was due to the following:

	Dollars	Percent
	(Dollars in millions)	
2016 Net sales	$1,330.5	
Volume/mix	(56.6)	(4.3)%
Pricing	26.1	2.0
Acquisition/divestiture	34.5	2.6
2017 Net sales	$1,334.5	0.3 %

Net sales increased in 2017 compared to 2016 primarily due to an additional month of Private Brands Business in 2017 and favorable pricing, partially offset by unfavorable volume/mix from weak consumer trends in 2017 compared to the prior year and the exit of low margin co-pack business.

Cost of sales as a percentage of net sales increased from 90.9% in 2016 to 94.0% in 2017, primarily due to the impact of higher commodity costs (mostly in cashews), an unfavorable shift in sales mix, and higher operating costs, partially offset by costs associated with a quality issue in 2016 that did not recur in 2017.

Freight out and commissions paid to independent sales brokers were $32.2 million in 2017 and $31.4 million in 2016. Freight out and commissions as a percentage of net sales was flat in 2017 compared to 2016.

Direct selling and marketing was relatively flat year-over-year in both dollars and as a percentage of net sales.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Net Sales — Net sales increased 92.6% to $6,175.1 million for the year ended December 31, 2016, compared to $3,206.4 million, for the year ended December 31, 2015. The change in net sales from 2015 to 2016 was due to the following:

	Dollars (Dollars in millions)	Percent
2015 Net sales	$3,206.4	
Volume/mix	25.0	0.8 %
Pricing	(28.5)	(0.9)
Product recalls	(9.9)	(0.3)
Acquisition/divestiture	2,996.0	93.4
Foreign currency	(13.9)	(0.4)
2016 Net sales	$6,175.1	92.6 %

The increase was due to sales from the 2016 acquisition of the Private Brands Business and favorable volume/mix, partially offset by unfavorable pricing and foreign exchange. During the second quarter of 2016, the Company announced a recall of certain products that impacted net sales by $9.9 million, which was not allocated to the segments.

Cost of Sales — Cost of sales as a percentage of consolidated net sales increased to 81.8% in 2016 from 79.9% in the prior year. Contributing to the increase in cost of sales as a percentage of net sales was the impact of lower margin products from the recent acquisition, which accounts for approximately 110 basis points of the increase in cost of sales as a percentage of net sales. Included in cost of sales was approximately $8.4 million of acquisition and integration costs and $7.9 million of restructuring costs in 2016 compared to only $0.7 million of acquisition and integration costs and $3.0 million of restructuring costs in the prior year. Also contributing to the increase in cost of sales relative to net sales was the year-over-year impact of unfavorable foreign exchange, increased variable incentive compensation, and approximately $5.7 million of costs related to the product recall, which more than offset the impact of largely favorable input costs.

Operating Costs and Expenses — Operating expenses increased to $1,222.2 million in 2016 compared to $404.6 million in 2015. The increase in 2016 resulted from the following:

Selling and distribution expenses increased $224.3 million, or 124.2%, in 2016 compared to 2015, primarily due to $227.6 million of incremental costs from the recent acquisition. Before considering the impact of the Private Brands Business, selling and distribution expenses were slightly favorable, as additional investments in the sales force and higher variable incentive compensation were more than offset by favorable freight rates.

General and administrative expenses increased $178.9 million in 2016 compared to 2015, of which $102.9 million pertained to continuing costs of the acquired business. Also contributing to the increase was $51.5 million of acquisition and integration costs in 2016 compared to $10.5 million in the prior year. The remaining increase of $35.0 million was due to approximately $16.5 million in higher incentive compensation compared to the prior year, the general growth of the business, and duplicative costs as a result of the Private Brands Business. In the prior year, the Company reduced incentive compensation due to operating results.

Impairment of goodwill and other intangible assets was $352.2 million in 2016. No such impairments were recorded in 2015. See Note 9 to our Consolidated Financial Statements for additional information regarding these impairments.

Amortization expense increased $49.3 million in 2016 compared to 2015, primarily due to the amortization of intangible assets from the acquisition.

Other operating expense was $14.7 million in 2016 compared to $1.8 million in 2015. The increase was primarily due to higher costs associated with restructuring and other margin improvement activities that were announced in recent quarters with respect to the Company's closure of the City of Industry, California; Ayer, Massachusetts; Azusa, California; Delta, British Columbia (frozen griddle); and Ripon, Wisconsin facilities as well as the downsizing of the Battle Creek, Michigan facility. See Note 3 to our Consolidated Financial Statements for additional information regarding restructurings.

Interest Expense — Interest expense in 2016 was $119.2 million, an increase of $73.7 million from 2015, due to higher debt levels and higher interest rates from financing the Private Brands acquisition.