TreeHouse Foods, Inc.
Form 10-Q
May 02, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2019.
or
o 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
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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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	x	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o

Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Number of shares of Common Stock, $0.01 par value, outstanding as of April 26, 2019: 56,138,851.

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Part I — Financial Information
Item 1. Financial Statements
TREEHOUSE FOODS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except per share data)

	March 31, 2019 (Unaudited)	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$79.0	$164.3
Receivables, net	367.3	351.3
Inventories	854.2	839.7
Prepaid expenses and other current assets	78.8	61.8
Total current assets	1,379.3	1,417.1
Property, plant and equipment, net	1,260.0	1,274.4
Operating lease right-of-use assets	228.8	—
Goodwill	2,163.9	2,161.4
Intangible assets, net	690.5	700.2
Other assets, net	42.5	46.2
Total assets	$5,765.0	$5,599.3
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$591.1	$577.9
Accrued expenses	245.6	256.1
Current portion of long-term debt	4.6	1.2
Total current liabilities	841.3	835.2
Long-term debt	2,285.2	2,297.4
Operating lease liabilities	204.6	—
Deferred income taxes	155.2	154.2
Other long-term liabilities	155.5	170.6
Total liabilities	3,641.8	3,457.4
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, par value $0.01 per share, 10.0 shares authorized, none issued	—	—
Common stock, par value $0.01 per share, 90.0 shares authorized, 56.2 and 56.0 shares issued and outstanding, respectively	0.6	0.6
Treasury stock	(83.3)	(83.3)
Additional paid-in capital	2,137.5	2,135.8
Retained earnings	158.6	185.9
Accumulated other comprehensive loss	(90.2)	(97.1)
Total stockholders' equity	2,123.2	2,141.9
Total liabilities and stockholders' equity	$5,765.0	$5,599.3

See Notes to Condensed Consolidated Financial Statements.

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TREEHOUSE FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Three Months Ended March 31,	
	2019	2018
	(Unaudited)	
Net sales	$1,301.1	$1,481.2
Cost of sales	1,106.5	1,249.3
Gross profit	194.6	231.9
Operating expenses:		
Selling and distribution	79.2	108.4
General and administrative	65.9	81.1
Amortization expense	21.6	22.2
Other operating expense, net	28.8	28.9
Total operating expenses	195.5	240.6
Operating loss	(0.9)	(8.7)
Other expense:		
Interest expense	26.9	28.5
(Gain) loss on foreign currency exchange	(0.4)	2.5
Other expense, net	12.2	4.2
Total other expense	38.7	35.2
Loss before income taxes	(39.6)	(43.9)
Income tax benefit	(12.3)	(9.8)
Net loss	$(27.3)	$(34.1)
Net loss per common share:		
Basic	$(0.49)	$(0.60)
Diluted	$(0.49)	$(0.60)
Weighted average common shares:		
Basic	56.1	56.5
Diluted	56.1	56.5

See Notes to Condensed Consolidated Financial Statements.

TREEHOUSE FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)

	Three Months Ended March 31,	
	2019	2018
	(Unaudited)	
Net loss	$(27.3)	$(34.1)
Other comprehensive income (loss):		
Foreign currency translation adjustments	6.8	(10.1)
Pension and postretirement reclassification adjustment	0.1	0.2
Adoption of ASU 2018-02 reclassification to retained earnings	—	(1.1)
Other comprehensive income (loss)	6.9	(11.0)
Comprehensive loss	$(20.4)	$(45.1)

See Notes to Condensed Consolidated Financial Statements.

TREEHOUSE FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, in millions)

	Common Stock		Additional Paid-In	Retained	Treasury Stock		Accumulated Other Comprehensive	Total
	Shares	Amount	Capital	Earnings	Shares	Amount	Loss	Equity
Balance, January 1, 2018	57.2	$ 0.6	$ 2,107.0	$ 245.9	(0.6)	$ (28.7)	$ (61.5)	$ 2,263.3
Net loss	—	—	—	(34.1)	—	—	—	(34.1)
Other comprehensive loss	—	—	—	—	—	—	(9.9)	(9.9)
Treasury stock repurchases	—	—	—	—	(0.4)	(17.1)	—	(17.1)
Equity awards exercised	0.2	—	0.9	—	—	—	—	0.9
Stock-based compensation	—	—	16.3	—	—	—	—	16.3
Cumulative effect of accounting change	—	—	—	1.5	—	—	(1.1)	0.4
Balance, March 31, 2018	57.4	$ 0.6	$ 2,124.2	$ 213.3	(1.0)	$ (45.8)	$ (72.5)	$ 2,219.8
Balance, January 1, 2019	57.8	$ 0.6	$ 2,135.8	$ 185.9	(1.8)	$ (83.3)	$ (97.1)	$ 2,141.9
Net loss	—	—	—	(27.3)	—	—	—	(27.3)
Other comprehensive income	—	—	—	—	—	—	6.9	6.9
Equity awards exercised	0.2	—	(4.4)	—	—	—	—	(4.4)
Stock-based compensation	—	—	6.1	—	—	—	—	6.1
Balance, March 31, 2019	58.0	$ 0.6	$ 2,137.5	$ 158.6	(1.8)	$ (83.3)	$ (90.2)	$ 2,123.2

See Notes to Condensed Consolidated Financial Statements.

TREEHOUSE FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Three Months Ended March 31,	
	2019	2018
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$(27.3)	$(34.1)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	61.9	67.0
Stock-based compensation	6.1	16.3
Unrealized loss on derivative contracts	15.9	5.7
Other	0.7	7.7
Changes in operating assets and liabilities, net of effect of divestitures:		
Receivables	(16.4)	(16.5)
Inventories	(13.2)	(24.9)
Prepaid expenses and other assets	(14.3)	(10.5)
Accounts payable, accrued expenses, and other liabilities	(51.3)	47.1
Net cash (used in) provided by operating activities	(37.9)	57.8
Cash flows from investing activities:		
Additions to property, plant, and equipment	(29.9)	(38.5)
Additions to intangible assets	(6.5)	(2.9)
Other	(0.1)	(0.3)
Net cash used in investing activities	(36.5)	(41.7)
Cash flows from financing activities:		
Borrowings under Revolving Credit Facility	14.0	5.9
Payments under Revolving Credit Facility	(14.0)	(5.9)
Payments on financing lease obligations	(0.4)	(0.3)
Payments on Term Loans	(10.0)	(3.5)
Repurchases of common stock	—	(17.1)
Receipts related to stock-based award activities	0.2	1.9
Payments related to stock-based award activities	(4.6)	(1.1)
Net cash used in financing activities	(14.8)	(20.1)
Effect of exchange rate changes on cash and cash equivalents	3.9	(0.3)
Net decrease in cash and cash equivalents	(85.3)	(4.3)
Cash and cash equivalents, beginning of period	164.3	132.8
Cash and cash equivalents, end of period	$79.0	$128.5
Supplemental cash flow disclosures		
Interest paid	$41.8	$44.3
Net income taxes paid	4.7	2.4
Non-cash investing activities:		
Accrued purchase of property and equipment	$18.9	$21.0
Accrued other intangible assets	7.3	4.8
Right-of-use assets and operating lease obligations recognized at ASU 2016-02 transition	252.5	—
Right-of-use assets and operating lease obligations recognized after ASU 2016-02 transition	6.1	—

See Notes to Condensed Consolidated Financial Statements.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As of and for the three months ended March 31, 2019
(Unaudited)

1. BASIS OF PRESENTATION

The unaudited Condensed Consolidated Financial Statements included herein have been prepared by TreeHouse Foods, Inc. and its consolidated subsidiaries (the “Company,” “TreeHouse,” “we,” “us,” or “our”), pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to quarterly reporting on Form 10-Q. In our opinion, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted as permitted by such rules and regulations. The Condensed Consolidated Financial Statements and related notes should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018. Results of operations for interim periods are not necessarily indicative of annual results.

In the first quarter of 2019, the Company changed how it manages its business, allocates resources, and goes to market, which resulted in modifications to its organizational and segment structure. All prior period information has been recast to reflect this change in reportable segments. Refer to Note 16 for additional information.

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

A detailed description of the Company’s significant accounting policies can be found in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Adopted
In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases, to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between existing GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under existing GAAP. The standard requires that entities apply the effects of these changes using a modified retrospective approach, which includes a number of optional practical expedients. In July 2018, the FASB issued ASU No. 2018-11, Leases (842), Targeted Improvements, which provides an additional transition election to not restate comparative periods for the effects of applying the new standard. This transition election permits entities to apply ASU No. 2016-02 on the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. These ASU's are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018.
The Company adopted these ASUs as of January 1, 2019 under the modified retrospective transition method prescribed by ASU 2018-11. Under this transition method, financial results reported in periods prior to the first quarter of 2019 are unchanged. The adoption of these ASUs resulted in the recognition of approximately $252.5 million of right-of-use assets and lease liabilities as of January 1, 2019. Also as a result of adoption, the Company reclassified $17.2 million of liabilities and $0.6 million of assets on its Condensed Consolidated Balance Sheet as of January 1, 2019 against the operating lease right-of-use asset. The adoption of these ASUs did not result in a cumulative-effect

adjustment to the opening balance of retained earnings.

In addition, the Company elected the package of practical expedients permitted by the transition guidance. The adoption of these ASU’s did not have an impact on the Company’s Condensed Consolidated Statements of Operations or Cash Flows.

Refer to Note 4 for additional information regarding the Company's leases.

Not yet adopted

The Company does not anticipate a material impact upon adoption from any accounting standards issued but not yet adopted.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. RESTRUCTURING PROGRAMS

The Company’s restructuring and margin improvement activities are part of an enterprise-wide transformation to improve long-term profitability of the Company. These activities are aggregated into three categories: (1) TreeHouse 2020 – a long-term growth and margin improvement strategy; (2) Structure to Win – an operating expenses improvement program; and (3) other restructuring and plant closing costs (collectively the “Restructuring Programs”).

The costs by activity for the Restructuring Programs are outlined below:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
TreeHouse 2020	$28.0	$27.7
Structure to Win	5.7	8.4
Other restructuring and plant closing costs	—	2.5
Total Restructuring Programs	$33.7	$38.6

Expenses associated with these programs are recorded in Cost of sales, General and administrative, and Other operating expense, net in the Condensed Consolidated Statements of Operations. The Company does not allocate costs associated with Restructuring Programs to reportable segments when evaluating the performance of its segments. As a result, costs associated with Restructuring Programs are not presented by reportable segment. See Note 16 for more information.

Below is a summary of costs by line item for the Restructuring Programs:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Cost of sales	$4.1	$9.7
General and administrative	0.8	—
Other operating expense, net	28.8	28.9
Total	$33.7	$38.6

The table below presents the activity of the liabilities associated with the Restructuring Programs as of March 31, 2019:

	Severance	Other Costs	Total Liabilities
	(In millions)		
Balance as of December 31, 2018	$19.3	$2.6	$ 21.9
Expenses recognized	3.1	—	3.1
Cash payments	(7.7)	—	(7.7)
Reclassification due to adoption of ASU 2016-02	—	(2.6)	(2.6)
Balance as of March 31, 2019	$14.7	$—	$ 14.7

Liabilities recorded as of March 31, 2019 associated with total exit cost reserves primarily relate to severance. The severance liability was included in Accrued expenses in the Condensed Consolidated Balance Sheets. Other costs represent early lease termination liabilities. As part of the Company's adoption of ASU 2016-02, these lease termination liabilities were offset with the initial right-of-use asset at transition. Refer to Note 4 for additional information.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(1) TreeHouse 2020

In the third quarter of 2017, the Company announced TreeHouse 2020, a program 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. The Company's workstreams related to these activities and selling, general, and administrative cost reductions will increase our capacity utilization, expand operating margins, and streamline our plant structure to optimize our supply chain. This program began in 2017 and will be executed through 2020. In 2017, the Company announced the closure of the Brooklyn Park, Minnesota and Plymouth, Indiana facilities, as well as the downsizing of the Dothan, Alabama facility. In the first quarter of 2018, the Company announced the closure of the Company's Visalia, California and Battle Creek, Michigan facilities. All facilities have either closed or are successfully tracking toward their closure dates noted in the table below. The table below shows key information regarding the Company's announced plant closures, a component of the broader TreeHouse 2020 program:

Facility Location	Date of Closure Announcement	Full Facility Closure	Primary Products Produced	Primary Segment(s) Affected	Total Costs to Close	Total Cash Costs to Close
					(In millions)	
Dothan, Alabama	August 3, 2017	Partial closure completed in Q3 2018	Trail mix and snack nuts	Snacks	$11.8	$6.1
Brooklyn Park, Minnesota	August 3, 2017	Completed in Q4 2017	Dry dinners	Meal Solutions	16.1	9.6
Plymouth, Indiana	August 3, 2017	Completed in Q4 2017	Pickles	Meal Solutions	9.3	3.8
Battle Creek, Michigan	January 31, 2018	Q3 2019	Ready-to-eat cereal	Baked Goods	18.2	11.8
Visalia, California	February 15, 2018	Completed in Q1 2019	Pretzels	Baked Goods	22.1	8.8
					$77.5	$40.1

During the third quarter of 2018, the Company announced the closure of its Omaha, Nebraska office by January 31, 2019. This closure was completed during the first quarter of 2019.

Below is a summary of the overall TreeHouse 2020 program costs by type:

	Three Months Ended March 31,		Cumulative Costs To Date	Total Expected Costs
	2019	2018		
	(In millions)			
Asset-related	$2.9	$5.3	$ 58.7	$ 71.0
Employee-related	4.7	8.4	54.6	77.0
Other costs	20.4	14.0	109.1	202.0
Total	$28.0	$27.7	$ 222.4	$ 350.0

For the three months ended March 31, 2019 and 2018, asset-related costs primarily consisted of accelerated depreciation; employee-related costs primarily consisted of dedicated project employee cost and severance; and other costs primarily consisted of consulting costs. Asset-related costs were recorded in Cost of sales while employee-related and other costs were primarily recorded in Other operating expense, net of the Condensed Consolidated Statement of Operations.

(2) Structure to Win

In the first quarter of 2018, the Company announced an operating expenses improvement program ("Structure to Win") designed to align our organization structure with strategic priorities. The program is intended to drive operational effectiveness, cost reduction, and position the Company for growth with a focus on a lean customer focused go-to-market team, centralized supply chain, and streamlined administrative functions.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Below is a summary of costs by type associated with the Structure to Win program:

	Three Months Ended March 31, 2019	2018	Cumulative Costs To Date	Total Expected Costs
	(In millions)			
Asset-related	$0.8	$—	$ 3.0	$ 3.8
Employee-related	1.4	5.5	23.7	31.8
Other costs	3.5	2.9	24.1	27.4
Total	$5.7	$8.4	$ 50.8	$ 63.0

The Company increased total expected costs for the Structure to Win program from $49.5 million to $63.0 million during the three months ended March 31, 2019 due to additional actions taken to consolidate our administrative footprint and better align divisional support structures.

For the three months ended March 31, 2019 and 2018, employee-related costs primarily consisted of severance and other costs primarily consisted of consulting services. Asset-related costs are included in General and administrative expense and the employee-related and other costs are included in Other operating expense, net of the Condensed Consolidated Statements of Operations.

During the first quarter of 2019, the Company announced the closure of its St. Louis, Missouri office by June 28, 2019. Estimated costs to close are approximately $7.8 million, most of which are anticipated to be in cash.

(3) Other Restructuring and Plant Closing Costs

The Company continually analyzes its plant network to align operations with the current and future needs of its customers. Facility closure decisions are made when the Company identifies opportunities to lower production costs or eliminate excess manufacturing capacity while maintaining a competitive cost structure, service levels, and product quality. Expenses associated with facility closures are primarily aggregated in Other operating expense, net of the Condensed Consolidated Statements of Operations, with the exception of asset-related costs, which are recorded in Cost of sales.

Other restructuring and plant closing costs were $2.5 million for the three months ended March 31, 2018. There were no costs associated with other restructuring and plant closing costs during the three months ended March 31, 2019.

4. LEASES

The Company has operating and finance leases for manufacturing facilities, warehouses and distribution centers, office space, and certain equipment. Remaining lease terms for these leases range from 1 year to 21 years. Some of the Company’s leases include options to extend the leases for up to 29 years, and some of which include options to terminate the leases within 1 year.

The Company does not record leases with an initial term of 12 months or less on the balance sheet. Expense for these short-term leases is recorded on a straight-line basis over the lease term.

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TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Supplemental balance sheet information related to leases was as follows:

	Balance Sheet Classification	March 31, 2019
Assets		
Operating	Operating lease right-of-use assets	$228.8
Finance	Property, plant, and equipment, net	1.8
Total assets		$230.6
Liabilities		
Current liabilities		
Operating	Accrued expenses	$41.1
Finance	Current portion of long-term debt	1.1
Total current liabilities		42.2
Noncurrent liabilities		
Operating	Operating lease liabilities	204.6
Finance	Long-term debt	1.3
Total noncurrent liabilities		205.9
Total lease liabilities		$248.1

Right-of-use assets and lease liabilities are measured and recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The Company has elected the practical expedient to combine lease and nonlease components into a single component for all of its leases. The majority of the Company's leases do not provide an implicit rate; therefore, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments for those leases. The Company has elected the practical expedient to apply discount rates to its lease portfolio based on the portfolio approach. The portfolios grouped the leases by remaining lease term. The Company includes options to extend or terminate the lease in the measurement of the right-of-use asset and lease liability when it is reasonably certain that it will exercise such options. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

The components of lease expense were as follows:

	Income Statement Classification	Three Months Ended March 31, 2019
Operating lease cost	Cost of sales and General and administrative	$ 11.6
Finance lease cost:		
Amortization of right-of-use assets	Cost of sales and General and administrative	0.4
Interest on lease liabilities	Interest expense	0.1
Total finance lease cost		0.5
Variable lease cost (1)	Cost of sales and General and administrative	1.2
Net lease cost		$ 13.3

(1) Includes short-term leases, which are immaterial.

Fixed lease costs represent the explicitly quantified lease payments prescribed by the lease agreement. Variable lease payments that depend on an index or a rate are included in the calculation of the right-of-use asset and lease liability based on the index or rate at lease commencement. Other variable lease payments such as those that depend on the usage or performance of an underlying asset are not included in the measurement of the right-of-use asset or lease liability.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Future maturities of lease liabilities were as follows:

	Operating Leases (1)	Finance Leases
Nine months ended December 31, 2019	$ 39.3	$ 1.1
2020	47.0	0.5
2021	42.2	0.4
2022	33.8	0.1
2023	27.1	0.1
Thereafter	115.6	0.3
Total lease payments	305.0	2.5
Less: Interest	(59.3)	(0.1)
Present value of lease liabilities	$ 245.7	$ 2.4

(1) Operating lease payments include $3.0 million related to options to extend lease terms that are reasonably certain of being exercised.

Other information related to leases were as follows:

	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 12.6
Operating cash flows from finance leases	0.1
Financing cash flows from finance leases	0.4

The weighted average remaining lease term was as follows:

	March 31, 2019
Operating leases (in years)	7.9
Finance leases (in years)	2.6

The weighted average discount rate was as follows:

	March 31, 2019
Operating leases	4.8 %
Finance leases	4.1

5. RECEIVABLES SALES AGREEMENT

In December 2017, the Company entered into an agreement (the “Receivables Sales Agreement”), to sell, on a revolving basis, certain trade accounts receivable balances to an unrelated third-party financial institution. Transfers under this agreement are accounted for as sales of receivables resulting in the receivables being de-recognized from the Condensed Consolidated Balance Sheet. The Receivables Sales Agreement provides for the sale of certain receivables on a revolving basis until terminated by either party. On September 28, 2018, the Company entered into an Amendment to the Receivables Sales Agreement, increasing the maximum receivables that may be sold at any time from $200.0 million to $300.0 million.

The outstanding amount of accounts receivable sold under the Receivables Sales Agreement were $148.7 million and $177.0 million as of March 31, 2019 and December 31, 2018, respectively. The proceeds from these sales of receivables are included within the change in receivables in the operating activities section of the Condensed Consolidated Statements of Cash Flows. The recorded loss on sale of receivables is $0.9 million and $0.6 million for the three months ended March 31, 2019 and 2018, respectively, and is included in Other expense, net in the Condensed Consolidated Statements of Operations.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company has no retained interest in the receivables sold under the program above; however, the Company does have collection and administrative responsibilities for the sold receivables. As of March 31, 2019 and December 31, 2018, the Company had collected $97.5 million and $119.3 million, respectively, of cash from customers which was not yet remitted to the third-party financial institution. These amounts were included in Accounts payable in the Condensed Consolidated Balance Sheets. The Company has not recorded any servicing assets or liabilities as of March 31, 2019 or December 31, 2018, as the fair value of the servicing arrangement as well as the fees earned were not material to the financial statements.

6. INVENTORIES

	March 31, 2019	December 31, 2018
	(In millions)	
Raw materials and supplies	$361.8	$ 390.8
Finished goods	517.0	473.0
LIFO reserve	(24.6)	(24.1)
Total inventories	$854.2	$ 839.7

Inventory is generally accounted for under the first-in, first-out (“FIFO”) method and a portion was accounted for under the last-in, first-out (“LIFO”) method. Approximately $53.5 million and $67.8 million of our inventory was accounted for under the LIFO method of accounting at March 31, 2019 and December 31, 2018, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

As a result of the changes in organizational structure completed in the first quarter of 2019, the Company now has the following four operating segments, which are also its reporting units: Baked Goods, Beverages, Meal Solutions, and Snacks. See Note 16 for more information.

The Company allocated goodwill and accumulated impairment loss balances as of January 1, 2019 between reporting units using a relative fair value allocation approach. The change was considered a triggering event indicating a test for goodwill impairment was required as of January 1, 2019. The Company performed the impairment test, which did not result in the identification of any impairment losses.

Changes in the carrying amount of goodwill for the three months ended March 31, 2019 are as follows:

	Baked Goods	Beverages	Meal Solutions	Snacks	Total
	(In millions)				
Goodwill	$642.2	$ 712.5	$ 851.2	$576.8	$2,782.7
Accumulated impairment losses	(33.0)	—	(11.5)	(576.8)	(621.3)
Balance at January 1, 2019	609.2	712.5	839.7	—	2,161.4
Foreign currency exchange adjustments	—	1.0	1.5	—	2.5
Balance at March 31, 2019	$609.2	$ 713.5	$ 841.2	$—	$2,163.9

Indefinite Lived Intangible Assets

The Company has $21.7 million and $21.4 million of trademarks with indefinite lives as of March 31, 2019 and December 31, 2018, respectively.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Finite Lived Intangible Assets

The gross carrying amounts and accumulated amortization of intangible assets with finite lives as of March 31, 2019 and December 31, 2018 are as follows:

	March 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In millions)					
Intangible assets with finite lives:						
Customer-related	$957.0	$ (403.9)	$ 553.1	$954.3	$ (387.9)	$ 566.4
Contractual agreements	3.0	(3.0)	—	3.0	(3.0)	—
Trademarks	59.2	(28.8)	30.4	59.1	(27.6)	31.5
Formulas/recipes	33.7	(24.8)	8.9	33.7	(23.5)	10.2
Computer software	165.4	(89.0)	76.4	155.3	(84.6)	70.7
Total finite lived intangibles	$1,218.3	$ (549.5)	$ 668.8	$1,205.4	$ (526.6)	$ 678.8

8. INCOME TAXES

Income tax benefit was recorded at an effective rate of 31.1% for the three months ended March 31, 2019 compared to 22.3% for the three months ended March 31, 2018. The change in the Company's effective tax rate for the three months ended March 31, 2019 compared to 2018 is primarily the result of an adjustment to the one-time transition tax liability due to the January 15, 2019 release of final regulations, the impact of a decrease in executive compensation that is non-deductible for tax purposes, and a change in the valuation allowance. In addition, the Company’s effective tax rate for the three months ended March 31, 2019 reflects a discrete benefit with a rate impact of approximately 1.3% attributable to the vesting and exercise of share-based awards. 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.

Management estimates that it is reasonably possible that the total amount of unrecognized tax benefits could decrease by as much as $4.0 million within the next 12 months, primarily as a result of the resolution of audits currently in progress and the lapsing of statutes of limitations. As much as $1.0 million of the $4.0 million could affect net income when settled.

On January 15, 2019, the U.S. Treasury Department and Internal Revenue Service released final regulations regarding the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. During the three months ended March 31, 2019, the Company recorded a $1.4 million benefit to reflect the final regulations.

9. LONG-TERM DEBT

	March 31, 2019	December 31, 2018
	(In millions)	
Term Loan A	$488.8	$488.8
Term Loan A-1	841.3	851.2
2022 Notes	375.9	375.9

2024 Notes	602.9	602.9
Finance leases	2.4	2.5
Total outstanding debt	2,311.3	2,321.3
Deferred financing costs	(21.5)	(22.7)
Less current portion	(4.6)	(1.2)
Total long-term debt	$2,285.2	$2,297.4

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TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company’s average interest rate on debt outstanding under its Credit Agreement for the three months ended March 31, 2019 was 4.34%. Including the impact of interest rate swap agreements in effect as of March 31, 2019, the average rate decreased to 3.62%.

Revolving Credit Facility — As of March 31, 2019, $719.6 million of the aggregate commitment of $750.0 million of the Revolving Credit Facility was available. Under the Credit Agreement, the Revolving Credit Facility matures on February 1, 2023. In addition, as of March 31, 2019, there were $30.4 million in letters of credit under the Revolving Credit Facility that were issued but undrawn, which have been included as a reduction to the calculation of available credit.

Fair Value - At March 31, 2019, the aggregate fair value of the Company's total debt was $2,337.5 million and its carrying value was $2,308.9 million. At December 31, 2018, the aggregate fair value of the Company's total debt was $2,311.3 million and its carrying value was $2,318.8 million. The fair values of Term Loan A and Term Loan A-1 were estimated using present value techniques and market-based interest rates and credit spreads. The fair values of the Company's 2022 Notes and 2024 Notes were estimated based on quoted market prices for similar instruments due to their infrequent trading volume. Accordingly, the fair value of the Company's debt is classified as Level 2 within the valuation hierarchy.

10. EARNINGS PER SHARE

The following table summarizes the effect of the share-based compensation awards on the weighted average number of shares outstanding used in calculating diluted loss per share:

	Three Months Ended March 31,	
	2019	2018
	(In millions, except per share data)	
Net loss	$ (27.3)	$ (34.1)
Weighted average common shares outstanding	56.1	56.5
Assumed exercise/vesting of equity awards (1)	—	—
Weighted average diluted common shares outstanding	56.1	56.5
Net loss per basic share	$ (0.49)	$ (0.60)
Net loss per diluted share	$ (0.49)	$ (0.60)

(1) Incremental shares from equity awards are computed using the treasury stock method. For the three months ended March 31, 2019 and 2018, the weighted average common shares outstanding is the same for both the computations of basic and diluted shares because the Company had a net loss for the period. Equity awards excluded from the Company's computation of diluted earnings per share because they were anti-dilutive, were 1.7 million and 2.1 million for the three months ended March 31, 2019 and 2018, respectively.

11. STOCK-BASED COMPENSATION

The Board of Directors adopted, and the Company’s stockholders approved, the “TreeHouse Foods, Inc. Equity and Incentive Plan” (the “Plan”). Under the Plan, the Compensation Committee may grant awards of various types of compensation, including stock options, restricted stock, restricted stock units, performance shares, performance units, other types of stock-based awards, and other cash-based compensation. On April 25, 2019, the Plan was amended and restated to increase the number of shares available for issuance under the Plan by 1.5 million shares, effective February 27, 2019. The maximum number of shares available to be awarded under the Plan is approximately 17.5 million, of which approximately 4.6 million remained available at March 31, 2019.

Loss before income taxes for the three months ended March 31, 2019 and 2018 includes stock-based compensation expense of $6.1 million and $16.3 million, respectively. The tax benefit recognized related to the compensation cost of these share-based awards was approximately $1.5 million and $4.0 million for the three months ended March 31, 2019 and 2018, respectively.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In the first quarter of 2018, the Company entered into an amended employment agreement with our former Chief Executive Officer. The amended plan resulted in the modification of his outstanding equity awards by accelerating the vesting dates, changing outstanding performance units to vest at target, and extending the exercisability of options outstanding. Modification of the existing awards resulted in a charge of $10.0 million in the three months ended March 31, 2018. The impact of this modification on expense recognized for stock options, restricted stock units, and performance units was $1.2 million, $3.8 million, and $5.0 million, respectively.

Stock Options — The following table summarizes stock option activity during the three months ended March 31, 2019. Stock options generally vest in approximately three equal installments on each of the first three anniversaries of the grant date and expire ten years from the grant date.

	Employee Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value
	(In thousands)			(In millions)
Outstanding, at December 31, 2018	1,720	$ 75.24	4.8	$ 1.1
Forfeited	(8)	89.54		
Exercised	(4)	58.27		
Expired	(74)	77.45		
Outstanding, at March 31, 2019	1,634	75.07	4.7	4.5
Vested/expected to vest, at March 31, 2019	1,619	74.99	4.6	4.4
Exercisable, at March 31, 2019	1,506	73.95	4.4	4.4

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Compensation expense	$0.9	$2.7
Intrinsic value of stock options exercised	—	1.5

Future compensation costs related to unvested options totaled $1.8 million at March 31, 2019 and will be recognized over the remaining vesting period of the grants, which averages 0.9 years.
Restricted Stock Units — Employee restricted stock unit awards generally vest based on the passage of time. These awards generally vest in approximately three equal installments on each of the first three anniversaries of the grant date. Director restricted stock units generally vest on the first anniversary of the grant date. Certain directors have deferred receipt of their awards until either their departure from the Board of Directors or a specified date. As of March 31, 2019, director restricted stock units that have been earned and deferred totaled approximately 118,000.

The following table summarizes the restricted stock unit activity during the three months ended March 31, 2019:

	Employee Restricted Stock Units	Weighted Average	Director Restricted Stock Units	Weighted Average

		Grant Date Fair Value		Grant Date Fair Value
	(In thousands)		(In thousands)	
Outstanding, at December 31, 2018	685	$ 52.20	129	$ 53.75
Granted	327	64.39	—	—
Vested	(231)	55.58	(9)	38.27
Forfeited	(23)	47.49	—	—
Outstanding, at March 31, 2019	758	56.59	120	54.99

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Three Months Ended March 31, 2019	2018
	(In millions)	
Compensation expense	$4.6	$8.3
Fair value of vested restricted stock units	15.2	4.3
Tax benefit recognized from vested restricted stock units	2.6	1.0

Future compensation costs related to restricted stock units are approximately $32.1 million as of March 31, 2019 and will be recognized on a weighted average basis over the next 2.4 years. The grant date fair value of the awards is equal to the Company's closing stock price on the grant date.

Performance Units — Performance unit awards are granted to certain members of management. These awards contain service and performance conditions. For each of the three performance periods, one-third of the units will accrue, multiplied by a predefined percentage generally between 0% and 200%, depending on the achievement of certain operating performance measures. Additionally, for the cumulative performance period, a number of units will accrue, equal to the number of units granted multiplied by a predefined percentage generally between 0% and 200%, depending on the achievement of certain operating performance measures, less any units previously accrued. Accrued units will be converted to stock or cash, at the discretion of the Compensation Committee, generally, on the third anniversary of the grant date. The Company intends to settle these awards in stock and has the shares available to do so.

The following table summarizes the performance unit activity during the three months ended March 31, 2019:

	Performance Units	Weighted Average Grant Date Fair Value
	(In thousands)	
Unvested, at December 31, 2018	176	$ 71.49
Granted	353	62.07
Forfeited	(4)	89.37
Unvested, at March 31, 2019	525	65.04

	Three Months Ended March 31, 2019	2018
	(In millions)	
Compensation expense	$0.6	$5.3

Future compensation costs related to the performance units are estimated to be approximately $23.3 million as of March 31, 2019 and are expected to be recognized over the next 2.8 years. The grant date fair value of the awards is equal to the Company's closing stock price on the date of grant.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss consists of the following components, all of which are net of tax:

	Foreign Currency Translation (1)	Unrecognized Pension and Postretirement Benefits (1)	Accumulated Other Comprehensive Loss
	(In millions)		
Balance at December 31, 2017	$(57.2)	$ (4.3)	$ (61.5)
Other comprehensive loss	(10.1)	—	(10.1)
Reclassifications from accumulated other comprehensive loss (2)	—	0.2	0.2
Reclassifications from accumulated other comprehensive loss - Adoption of ASU 2018-02	—	(1.1)	(1.1)
Other comprehensive loss	(10.1)	(0.9)	(11.0)
Balance at March 31, 2018	$(67.3)	$ (5.2)	$ (72.5)
Balance at December 31, 2018	$(91.7)	$ (5.4)	$ (97.1)
Other comprehensive income	6.8	—	6.8
Reclassifications from accumulated other comprehensive income (2)	—	0.1	0.1
Other comprehensive income	6.8	0.1	6.9
Balance at March 31, 2019	$(84.9)	$ (5.3)	$ (90.2)

(1) The tax impact of the foreign currency translation adjustment and the unrecognized pension and postretirement benefits reclassification was insignificant for the three months ended March 31, 2019 and 2018.
(2) Refer to Note 13 for additional information regarding these reclassifications.

13. EMPLOYEE RETIREMENT AND POSTRETIREMENT BENEFITS

Pension, Profit Sharing, and Postretirement Benefits — Certain employees and retirees participate in pension and other postretirement benefit plans. Employee benefit plan obligations and expenses included in the Condensed Consolidated Financial Statements are determined based on plan assumptions, employee demographic data, including years of service and compensation, benefits and claims paid, and employer contributions.

Components of net periodic pension benefit are as follows:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Service cost	$0.5	$0.6
Interest cost	3.2	2.9
Expected return on plan assets	(3.8)	(4.0)
Amortization of unrecognized prior service cost	—	—
Amortization of unrecognized net loss	0.1	0.2
Net periodic pension benefit	$—	$(0.3)

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TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Components of net periodic postretirement expense are as follows:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Interest cost	$0.3	$0.3
Net periodic postretirement cost	$0.3	$0.3

The service cost components of net periodic pension and postretirement costs were recorded in Cost of sales and the other components were recorded in Other expense, net of the Condensed Consolidated Statements of Operations.

14. COMMITMENTS AND CONTINGENCIES

Litigation, Investigations, and Audits - On November 16, 2016, a purported TreeHouse shareholder filed a 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. The 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. It 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 is also 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. Finally, on February 8, 2019, another purported TreeHouse shareholder filed an action captioned Bartelt v. Reed, et al., Case No. 1:19-cv-00835, in the United States District Court for the Northern District of Illinois. Like Wells and Lavin, this complaint is purportedly brought derivatively on behalf of TreeHouse and asserts state law claims against certain officers for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and corporate waste, in addition to asserting violations of Section 14 of the Securities Exchange Act of 1934.

All four 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 Bartelt action also includes substantially similar allegations concerning events in 2017. 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. On May 26, 2017, the Public Employees' defendants filed a motion to dismiss, which the court denied on February 12, 2018. On April 12, 2018, the Public Employees' defendants filed their answer to the amended complaint. On April 23, 2018, the parties filed a joint status report with the Court, which set forth a proposed discovery and briefing schedule for the Court's consideration. On July 13, 2018, lead plaintiff filed a motion to certify the class, and defendants filed their response in opposition to the motion to certify the class on October 8, 2018. On November 12, 2018, the parties filed an agreed motion to stay proceedings to allow them to explore mediation. The motion was granted on November 19. The parties thereafter engaged in mediation but failed to resolve the dispute. On March 29, 2019, the parties resumed litigation by filing an agreed motion for extension of time, which was granted on April 9. Pursuant to that schedule, lead plaintiff must file its reply class certification brief by May 17, 2019, and document production must be substantially completed by August 2.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Due to the similarity of the complaints, the parties in Wells and Lavin 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. On September 27, 2018, the parties in Wells and Lavin filed joint motions for entry of agreed orders further deferring the matters in light of the Public Employees' Court's denial of the motion to dismiss in February 2018. The Wells and Lavin Courts entered the agreed orders further deferring the matters on September 27, 2018 and October 10, 2018, respectively. In Wells, the next status conference is set for July 8, 2019. In Bartelt, the parties have agreed to move to consolidate the matter with Lavin such that the Bartelt complaint will be subject to the same deferral order already in place. There is no set status date in Lavin at this time.

The Company is also party to matters challenging its wage and hour practices. These matters include a number of class actions consolidated under the caption Negrete v. Ralcorp Holdings, Inc., et al, pending in the U.S. District Court for the Central District of California, in which the plaintiffs allege a pattern of violations of California and/or federal law at several current and former Company manufacturing facilities across the State of California. While the Company cannot predict with certainty the results of this or any other legal proceeding, it does not expect this matter to have a material adverse effect on its financial condition, results of operations, or business.

In addition, the Company is party in the ordinary course of business to certain claims, litigation, audits, and investigations. The Company will record an accrual for a loss contingency when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company believes it has established adequate accruals for liabilities that are probable and reasonably estimable that may be incurred in connection with any such currently pending or threatened matter, none of which are significant. In the Company's opinion, the settlement of any such currently pending or threatened matter is not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

15. DERIVATIVE INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by derivative instruments include interest rate risk, foreign currency risk, and commodity price risk. Derivative contracts are entered into for periods consistent with the related underlying exposure and do not constitute positions independent of those exposures. The Company does not enter into derivative instruments for trading or speculative purposes.

Interest Rate Risk - The Company manages its exposure to changes in interest rates by optimizing the use of variable-rate and fixed-rate debt and by utilizing interest rate swaps to hedge our exposure to changes in interest rates, to reduce the volatility of our financing costs, and to achieve a desired proportion of fixed versus floating-rate debt, based on current and projected market conditions.

As of March 31, 2019, the Company had entered into $1.8 billion of long-term interest rate swap agreements to lock into a fixed LIBOR interest rate base. Under the terms of the agreements, $1.8 billion in variable-rate debt was swapped for a weighted average fixed interest rate base of approximately 1.54% through 2019; 2.68% from 2019 through 2020; and 2.91% from 2021 through 2025. These instruments are not accounted for under hedge accounting and the changes in their fair value are recorded in the Condensed Consolidated Statements of Operations.

Foreign Currency Risk - Due to the Company's foreign operations, it is exposed to foreign currency risk. The Company enters into foreign currency contracts to manage the risk associated with foreign currency cash flows. The Company's objective in using foreign currency contracts is to establish a fixed foreign currency exchange rate for the net cash flow requirements for purchases that are denominated in U.S. dollars. These contracts do not qualify for hedge accounting and changes in their fair value are recorded in the Condensed Consolidated Statements of Operations. As of March 31, 2019, the Company had $6.3 million of U.S. dollar foreign currency contracts outstanding, expiring throughout 2019.

Commodity Risk - Certain commodities the Company uses in the production and distribution of our products are exposed to market price risk. The Company utilizes derivative contracts to manage this risk. The majority of commodity forward contracts are not derivatives, and those that are generally qualify for the normal purchases and normal sales scope exception under the guidance for derivative instruments and hedging activities and, therefore, are not subject to its provisions. For derivative commodity contracts that do not qualify for the normal purchases and normal sales scope exception, the Company records their fair value on the Condensed Consolidated Balance Sheets, with changes in value being recorded in the Condensed Consolidated Statements of Operations.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Diesel contracts are used to manage the Company's risk associated with the underlying cost of diesel fuel used to deliver products. Contracts for oil, plastics, and resin are used to manage the Company's risk associated with the underlying commodity cost of a significant component used in packaging materials. Contracts for natural gas and electricity are used to manage the Company's risk associated with the utility costs of its manufacturing facilities, and commodity contracts are used to manage the price risk associated with raw material costs. As of March 31, 2019, the Company had outstanding contracts for the purchase of 0.1 million megawatts of electricity, expiring throughout 2019, and 2020; 12.7 million gallons of diesel, expiring throughout 2019; 2.1 million dekatherms of natural gas, expiring throughout 2019; and 15.5 million pounds of resin, expiring throughout 2019.

The following table identifies the fair value of each derivative instrument:

	Fair Value	
	March 31, 2019	December 31, 2018
Asset Derivatives	(In millions)	
Commodity contracts	$1.2	$ 0.6
Foreign currency contracts	0.3	1.5
Interest rate swap agreements	7.1	10.1
	$8.6	$ 12.2
Liability Derivatives		
Commodity contracts	$0.7	$ 1.8
Foreign currency contracts	0.1	—
Interest rate swap agreements	32.3	19.0
	$33.1	$ 20.8

As of March 31, 2019 and December 31, 2018, asset derivatives are included within Other assets, net and liability derivatives are included within Accrued expenses in the Condensed Consolidated Balance Sheets.

The fair values of the commodity contracts, foreign currency contracts, and interest rate swap agreements are determined using Level 2 inputs. Level 2 inputs are inputs other than quoted market prices that are observable for an asset or liability, either directly or indirectly. The fair values of the commodity contracts, foreign currency contracts, and interest rate swap agreements are based on an analysis comparing the contract rates to the market rates at the balance sheet date.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Location of Gain (Loss) Recognized in Net Loss	Three Months Ended March 31, 2019	2018
		(In millions)	
Mark-to-market unrealized gain (loss)			
Commodity contracts	Other expense, net	$1.7	$(1.0)
Foreign currency contracts	Other expense, net	(1.3)	1.8
Interest rate swap agreements	Other expense, net	(16.3)	(6.4)
Total unrealized loss		(15.9)	(5.6)
Realized gain			
Commodity contracts	Manufacturing related to Cost of sales and transportation related to Selling and distribution	0.5	2.4
Foreign currency contracts	Cost of sales	0.3	0.6
Interest rate swap agreements	Interest expense	2.4	0.8
Total realized gain		3.2	3.8
Total loss		$(12.7)	$(1.8)

16. SEGMENT INFORMATION

On January 1, 2019, the Company changed how it manages its business, allocates resources, and goes to market, which resulted in modifications to its organizational and segment structure. As a result, the Company consolidated its Condiments and Meals segments into one segment called Meal Solutions. Additionally, the Bars and Ready-to-eat cereal categories moved from the Company's Snacks and Meals segments, respectively, into the Baked Goods segment. All prior period information has been recast to reflect this change in reportable segments.

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

As of the first quarter of 2019, our segments are as follows:

Baked Goods – Our Baked Goods segment sells candy; cookies; crackers; in-store bakery products; pita chips; pretzels; refrigerated dough; retail griddle waffles, pancakes, and French toast; bars; and ready-to-eat cereal.

Beverages – Our Beverages segment sells broths; liquid non-dairy creamer; non-dairy powdered creamers; powdered drinks; single serve hot beverages; specialty teas, and sweeteners.

Meal Solutions – Our Meal Solutions segment sells aseptic cheese and pudding products; jams, preserves, and jellies; mayonnaise; Mexican, barbeque, and other sauces; pickles and related products; refrigerated and shelf stable dressings and sauces; table and flavored syrups; baking and mix powders; powdered soups and gravies; macaroni and cheese; pasta; hot cereals; and skillet dinners.

Snacks – Our Snacks segment sells snack nuts; trail mixes; dried fruit; and other wholesome snacks.

The Company evaluates the performance of its segments based on net sales dollars and direct operating income. Direct operating income is defined as gross profit less freight out, sales commissions, and direct selling, general, and administrative expenses. The amounts in the following tables are obtained from reports used by senior management and do not include income taxes. Other expenses not allocated include unallocated selling, general, and administrative expenses, unallocated costs of sales, and unallocated corporate expenses (amortization expense and other operating expense). The accounting policies of the Company’s segments are the same as those described in the summary of significant accounting policies set forth in Note 1 to the Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2018.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Financial information relating to the Company's reportable segments, revised to reflect the new segment structure, is as follows:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Net sales to external customers:		
Baked Goods	$422.7	$455.4
Beverages	237.2	249.1
Meal Solutions	464.9	523.3
Snacks	176.3	253.4
Total	$1,301.1	$1,481.2
Direct operating income:		
Baked Goods	$44.7	$28.0
Beverages	43.9	39.4
Meal Solutions	46.9	56.2
Snacks	(13.8)	7.6
Total	121.7	131.2
Unallocated selling, general, and administrative expenses	(58.5)	(81.3)
Unallocated cost of sales (1)	(8.1)	(7.5)
Unallocated corporate expense and other (1)	(56.0)	(51.1)
Operating loss	$(0.9)	$(8.7)

(1) Includes charges related to restructuring programs and other costs managed at corporate.

Disaggregation of Revenue

Segment revenue disaggregated by product category groups, revised to reflect the new segment structure, is as follows:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Retail bakery	$159.9	$177.1
Baked products	262.8	278.3
Total Baked Goods	422.7	455.4
Beverages	165.8	171.4
Beverage enhancers	71.4	77.7
Total Beverages	237.2	249.1
Dressings and sauces	225.9	246.2
Pickles	60.2	69.0
Pasta and dry dinners	113.4	142.0
Cereals and other meals	65.4	66.1
Total Meal Solutions	464.9	523.3
Snack nuts	149.9	202.4
Trail mix	26.4	51.0
Total Snacks	176.3	253.4

Total net sales	$1,301.1	$1,481.2

17. GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

The 2022 Notes and 2024 Notes are fully and unconditionally, as well as jointly and severally, guaranteed by our directly and indirectly owned domestic subsidiaries, which are collectively known as the "Guarantor Subsidiaries". Bay Valley Foods, LLC, which is a 100% owned direct subsidiary, maintains 100% direct and indirect ownership of the following Guarantor Subsidiaries: Sturm Foods, Inc.; S.T. Specialty Foods, Inc.; Associated Brands, Inc.; Cains Foods, Inc.; Cains Foods L.P.; Cains GP, LLC; Flagstone Foods, Inc., Protenergy Holdings, Inc.; Protenergy Natural Foods, Inc.; TreeHouse Private Brands, Inc. (formerly Ralcorp Holdings, Inc.); American Italian Pasta Company.; Nutcracker Brands, Inc.; Linette Quality Chocolates, Inc.; Ralcorp Frozen Bakery Products, Inc.; Cottage Bakery, Inc.; The Carriage House Companies, Inc. and certain other domestic subsidiaries that may become guarantors in the future.

The guarantees of the Guarantor Subsidiaries are subject to release in limited circumstances, only upon the occurrence of certain customary conditions. There are no significant restrictions on the ability of the parent company or any guarantor to obtain funds from its subsidiaries by dividend or loan. The following condensed supplemental consolidating financial information presents the results of operations, financial position, and cash flows of the parent company, its Guarantor Subsidiaries, its non-guarantor subsidiaries, and the eliminations necessary to arrive at the information for the Company on a consolidated basis as of March 31, 2019 and December 31, 2018, and for the three months ended March 31, 2019 and 2018. The equity method has been used with respect to investments in subsidiaries. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

TREEHOUSE FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed Supplemental Consolidating Balance Sheet
March 31, 2019
(In millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 40.8	$ —	$ 38.2	$ —	$ 79.0
Accounts receivable, net	0.7	320.7	45.9	—	367.3
Inventories	—	748.8	105.4	—	854.2
Prepaid expenses and other current assets	99.3	60.9	24.7	(106.1)	78.8
Total current assets	140.8	1,130.4	214.2	(106.1)	1,379.3
Property, plant, and equipment, net	41.8	1,074.1	144.1	—	1,260.0
Operating lease right-of-use assets	38.1	160.8	29.9	—	228.8
Goodwill	—	2,046.7	117.2	—	2,163.9
Investment in subsidiaries	5,206.9	484.1	—	(5,691.0)	—
Deferred income taxes	34.0	—			