PINNACLE FOODS INC.
Form 10-Q
August 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 1, 2018
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 001-35844

Pinnacle Foods Inc.
(Exact name of registrant as specified in its charter)

Delaware	35-2215019
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
399 Jefferson Road Parsippany, New Jersey	07054
(Address of Principal Executive Offices)	(Zip Code)

Registrant’s telephone number, including area code: (973) 541-6620

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 ý 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 ý No ¨
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,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller Reporting Company	¨
		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.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes ¨ No ý

The Registrant had 119,185,812 shares of common stock, $0.01 par value, outstanding as of July 30, 2018.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PINNACLE FOODS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(thousands, except per share amounts)

	Three months ended		Six months ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Net sales	$741,761	$744,608	$1,520,593	$1,510,682
Cost of products sold	530,299	580,681	1,102,701	1,136,182
Gross profit	211,462	163,927	417,892	374,500
Marketing and selling expenses	50,617	49,470	99,844	105,064
Administrative expenses	35,368	33,630	70,042	69,641
Research and development expenses	4,786	4,580	9,550	8,601
Tradename impairment charges	—	27,430	—	27,430
Other expense, net	17,445	5,288	20,310	9,518
	108,216	120,398	199,746	220,254
Operating income	103,246	43,529	218,146	154,246
Non-operating income	802	491	1,603	982
Earnings before interest and taxes	104,048	44,020	219,749	155,228
Interest expense	30,184	28,507	72,078	109,238
Interest income	16	13	228	28
Earnings before income taxes	73,880	15,526	147,899	46,018
Provision (benefit) for income taxes	17,624	(3,092)	34,729	4,251
Net earnings	56,256	18,618	113,170	41,767
Less: Net (loss) earnings attributable to non-controlling interest	(61)	(51)	(61)	172
Net earnings attributable to Pinnacle Foods, Inc. and subsidiaries common shareholders	$56,317	$18,669	$113,231	$41,595
Net earnings per share attributable to Pinnacle Foods, Inc. and subsidiaries common shareholders:				
Basic	$0.47	$0.16	$0.95	$0.35
Weighted average shares outstanding - basic	118,774	118,114	118,635	117,869
Diluted	$0.47	$0.16	$0.94	$0.35
Weighted average shares outstanding - diluted	119,948	119,607	119,881	119,469
Dividends declared	$0.325	$0.285	$0.650	$0.570

See accompanying Notes to Unaudited Consolidated Financial Statements

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PINNACLE FOODS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (unaudited)
(thousands)

	Three months ended						Six months ended					
	July 1, 2018			June 25, 2017			July 1, 2018			June 25, 2017		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net earnings			$56,256			$18,618			$113,170			$41,767
Other comprehensive earnings (loss)												
Foreign currency translation:												
Foreign currency translation adjustments	(1,663)	—	(1,663)	652	—	652	(3,841)	—	(3,841)	1,765	—	1,765
Cash-flow hedges:												
Unrealized gains (losses) arising during the period	8,053	(2,119)	5,934	(5,147)	1,973	(3,174)	21,658	(5,583)	16,075	(4,652)	1,781	(2,871)
Reclassification adjustment for (gains) losses included in net earnings	(1,227)	314	(913)	(278)	106	(172)	(1,298)	331	(967)	21,597	(8,245)	13,352
Pension:												
Reclassification of net actuarial loss included in net earnings	217	(54)	163	309	(119)	190	476	(118)	358	578	(221)	357
Other comprehensive earnings (loss)	5,380	(1,859)	3,521	(4,464)	1,960	(2,504)	16,995	(5,370)	11,625	19,288	(6,685)	12,603
Total comprehensive earnings			59,777			16,114			124,795			54,370
Less: Comprehensive earnings attributable to non-controlling interest			(61)			(51)			(61)			172
			$59,838			$16,165			$124,856			$54,198

Comprehensive earnings attributable to Pinnacle Foods Inc. and Subsidiaries

See accompanying Notes to Unaudited Consolidated Financial Statements

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PINNACLE FOODS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (unaudited)
(thousands, except share and per share amounts)

	July 1, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	$80,431	$249,828
Accounts receivable, net of allowances of $9,584 and $10,036, respectively	264,358	281,622
Inventories	507,937	489,806
Other current assets	15,889	11,061
Total current assets	868,615	1,032,317
Plant assets, net of accumulated depreciation of $566,121 and $566,202, respectively	754,114	739,713
Tradenames	2,463,172	2,463,374
Other assets, net	173,971	164,899
Goodwill	2,175,290	2,177,961
Total assets	$6,435,162	$6,578,264
Current liabilities:		
Short-term borrowings	$1,842	$2,739
Current portion of long-term obligations	54,126	33,934
Accounts payable	329,035	323,062
Accrued trade marketing expense	32,113	38,975
Accrued liabilities	119,945	122,131
Dividends payable	40,066	40,470
Total current liabilities	577,127	561,311
Long-term debt	2,703,917	2,925,594
Pension and other postretirement benefits	50,134	53,251
Other long-term liabilities	28,662	34,037
Deferred tax liabilities	643,792	623,833
Total liabilities	4,003,632	4,198,026
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Pinnacle preferred stock: $.01 per share, 50,000,000 shares authorized, none issued	—	—
Pinnacle common stock: par value $.01 per share, 500,000,000 shares authorized; issued 120,184,208 and 120,018,215, respectively	1,202	1,200
Additional paid-in-capital	1,457,492	1,453,054
Retained earnings	1,027,855	987,238
Accumulated other comprehensive loss	(23,954)	(30,250)
Capital stock in treasury, at cost, 1,000,000 common shares	(32,110)	(32,110)
Total Pinnacle Foods Inc. and subsidiaries shareholders' equity	2,430,485	2,379,132
Non-controlling interest	1,045	1,106
Total Equity	2,431,530	2,380,238
Total liabilities and equity	$6,435,162	$6,578,264

See accompanying Notes to Unaudited Consolidated Financial Statements

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PINNACLE FOODS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(thousands)

	Six months ended	
	July 1, 2018	June 25, 2017
Cash flows from operating activities		
Net earnings	$113,170	$41,767
Non-cash charges (credits) to net earnings		
Depreciation and amortization	54,251	80,899
Intangible asset impairment charge	—	27,430
Amortization of debt acquisition costs and discount on term loan	1,612	2,597
Call premium on note redemptions	4,267	—
Recognition of deferred costs related to refinancing	12,681	28,494
Change in value of financial instruments, including amounts reclassified from Accumulated Other Comprehensive Loss from settlement of hedges	1,078	25,043
Equity-based compensation charges	9,979	9,656
Pension expense, net of contributions	(2,641)	(1,136)
Other long-term liabilities	(6,331)	(1,193)
Foreign exchange losses/(gains)	894	(398)
Deferred income taxes	12,348	(5,780)
Changes in working capital		
Other liabilities - cash settlement of hedges related to refinancing	—	(20,722)
Accounts receivable	16,851	11,777
Inventories	(19,056)	(31,745)
Accrued trade marketing expense	(6,973)	(17,748)
Accounts payable	20,870	35,379
Accrued liabilities	1,091	(53,991)
Other current assets	659	(9,981)
Net cash provided by operating activities	214,750	120,348
Cash flows from investing activities		
Capital expenditures	(60,333)	(49,355)
Proceeds from sale of plant assets	—	1,947
Other investing	608	—
Net cash used in investing activities	(59,725)	(47,408)
Cash flows from financing activities		
Proceeds from bank term loans	2,289,380	2,262,000
Repayments of long-term obligations	(2,614,629)	(2,472,320)
Proceeds from short-term borrowings	—	1,634
Repayments of short-term borrowings	(2,391)	(2,240)
Borrowings under revolving credit facility	100,000	—
Repayment of capital lease obligations	(6,188)	(4,216)
Dividends paid	(78,171)	(67,412)
Net proceeds from issuance of common stock	2,046	9,051
Taxes paid related to net share settlement of equity awards	(7,572)	(8,926)
Debt acquisition costs	(6,569)	(12,937)
Net cash used in financing activities	(324,094)	(295,366)
Effect of exchange rate changes on cash	(328)	219
Net change in cash and cash equivalents	(169,397)	(222,207)

Cash and cash equivalents - beginning of period	249,828	353,076
Cash and cash equivalents - end of period	$80,431	$130,869
Supplemental disclosures of cash flow information:		
Interest paid	$60,817	$62,180
Interest received	1,391	28
Income taxes paid	44,617	47,569
Non-cash investing and financing activities:		
New capital leases	17,901	8,951
Dividends payable	40,066	35,244
Accrued additions to plant assets	12,518	10,422

See accompanying Notes to Unaudited Consolidated Financial Statements

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PINNACLE FOODS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)
(thousands, except share and per share amounts)

	Common Stock		Treasury Stock							
	Shares	Amount	Shares	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	Non-Controlling Interest	Total Equ
Balance, December 25, 2016	119,127,269	$1,191	(1,000,000)	$(32,110)	$1,429,447	$601,049	$(51,569)	$1,948,008	$934	$1,9
Equity-based compensation plans	658,775	7			9,774			9,781		9,78
Dividends ($0.570 per share) (a)						(68,281)		(68,281)		(68,
Non-controlling interest in acquisition								—	172	172
Comprehensive earnings						41,767	12,603	54,370		54,3
Balance, June 25, 2017	119,786,044	$1,198	(1,000,000)	$(32,110)	$1,439,221	$574,535	$(38,966)	$1,943,878	$1,106	$1,9
Balance, December 31, 2017	120,018,215	$1,200	(1,000,000)	$(32,110)	$1,453,054	$987,238	$(30,250)	$2,379,132	$1,106	$2,3
Equity-based compensation plans	165,993	2			4,438			4,440		4,44
Dividends ($0.650 per share) (b)						(77,882)		(77,882)		(77,
Reclassification of tax effects relating to U.S. tax reform						5,329	(5,329)	—		—
Net earnings attributable to non-controlling interest								—	(61)	(61
Comprehensive earnings						113,170	11,625	124,795		124,
Balance, July 1, 2018	120,184,208	$1,202	(1,000,000)	$(32,110)	$1,457,492	$1,027,855	$(23,954)	$2,430,485	$1,045	$2,4

(a) $0.285 per share declared February 2017 and June 2017.
(b) $0.325 per share declared February 2018 and June 2018.

See accompanying Notes to Unaudited Consolidated Financial Statements

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PINNACLE FOODS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(thousands, except share and per share amounts and where noted in millions)

1. Summary of Business Activities
Business Overview
Pinnacle Foods Inc. ("Pinnacle" or the "Company") is a leading manufacturer, marketer and distributor of high quality, branded convenience food products, the products and operations of which are managed and reported in four operating segments: (i) Frozen, (ii) Grocery, (iii) Boulder and (iv) Specialty.

The Frozen segment is comprised of the retail businesses of the Company's frozen brands, including vegetables (Birds Eye), complete bagged meals (Birds Eye Voila! and Birds Eye Signature Skillets), full-calorie single-serve frozen dinners and entrées (Hungry-Man), prepared seafood (Van de Kamp's and Mrs. Paul's), frozen and refrigerated bagels (Lender's) and pizza for one (Celeste). The Frozen segment also includes all of the Company’s business in Canada, including those of the Garden Protein International and Boulder Brands acquisitions. The Grocery segment is comprised of the retail businesses of the Company's grocery brands, including cake/ brownie mixes and frostings (Duncan Hines), shelf-stable pickles (Vlasic), salad dressings (Wish-Bone, Western and Bernstein’s), table syrups (Log Cabin and Mrs. Butterworth's), refrigerated and shelf-stable spreads (Smart Balance), canned meat (Armour, Nalley and Brooks), pie and pastry fillings (Duncan Hines Comstock and Wilderness), and barbecue sauces (Open Pit). The Boulder segment is comprised of the retail businesses of the Company's health and wellness lifestyle brands including gluten-free products (Udi's and Glutino), natural frozen meal offerings (EVOL), plant-based refrigerated and shelf-stable spreads (Earth Balance) and plant-based protein frozen products (gardein). The Specialty Foods segment includes the Company’s snack products (Tim's Cascade and Snyder of Berlin) and all of its U.S. foodservice and private label businesses, including those of the Garden Protein International and Boulder Brands acquisitions.
Merger Agreement with Conagra Brands, Inc.

On June 26, 2018, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Conagra Brands, Inc., a Delaware corporation ("Conagra") and Patriot Merger Sub Inc., a Delaware corporation and a wholly-owned subsidiary of Conagra (“Merger Sub”). The Merger Agreement provides for the merger of Merger Sub with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly-owned subsidiary of Conagra.

At the time of the Merger, each of the Company's shares of common stock will be converted into the right to receive $43.11 in cash and 0.6494 shares of Conagra common stock. This implied a price of $68.00 per share of the Company's common stock on the date of the announcement. The final purchase price is expected to be valued at approximately $10.9 billion, including the Company's outstanding net debt.

The transactions contemplated by the Merger Agreement are subject to the satisfaction of certain customary conditions, including the approval of the Merger Agreement by at least a majority of the Company's shareholders, the receipt of regulatory approvals, the absence of any legal prohibitions, the accuracy of the representations and warranties of the parties, and compliance by the parties with their respective obligations under the Merger Agreement.

Under certain circumstances defined within the Merger Agreement, in the event that the Merger Agreement is terminated, the Company would be required to pay Conagra a termination fee of approximately $264 million.

In the second quarter of 2018, the Company incurred $10.8 million of professional fees associated with this transaction. For the remainder of 2018, approximately $65 million to $70 million of additional charges for professional fees, employee incentives and other costs related to the Merger are expected to be incurred.

2. Interim Financial Statements

Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting primarily of normal recurring adjustments) necessary for a fair statement of the Company’s financial position as of July 1, 2018, the results of operations for the three and six months ended July 1, 2018 and June 25, 2017, and the cash flows for the six months ended July 1, 2018 and June 25, 2017. The results of operations are not necessarily indicative of the results to be expected for the full fiscal year. The accompanying unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2017.

3. Revenue recognition

Effective January 1, 2018, the Company adopted Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers," and all the related amendments (Accounting Standards Codification (ASC) 606) using the modified retrospective method of adoption. ASC 606 consists of a comprehensive revenue recognition standard, which requires the recognition of revenue when promised goods are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled.

The Company recognizes revenue when obligations under the terms of a contract with its customer are satisfied; generally, this occurs with the transfer of control of its products. Revenue is measured as the amount of net consideration expected to be received in exchange for transferring products. Revenue from product sales is governed primarily by customer pricing and trade marketing agreements (see further discussion below) and related purchase orders (“contracts”) which specify shipping terms and certain aspects of the transaction price including rebates, discounts and other sales incentives, such as trade marketing programs and product introductory fees. Contracts are at standalone pricing. The performance obligation in these contracts is determined by each of the individual purchase orders and the respective stated quantities, with revenue being recognized at a point in time when obligations under the terms of the agreement are satisfied. This generally occurs with the transfer of control of our products to the customer and the product is shipped. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. The Company's customers have an implicit and explicit right to return non-conforming products. A provision for payment discounts and product return allowances, which is estimated based upon the expected value method, is recorded as a reduction of sales in the same period that the revenue is recognized.

Trade marketing expense, consisting primarily of customer pricing allowances and merchandising funds are offered through various programs to customers and are designed to promote our products. They include the cost of in-store product displays, feature pricing in retailers' advertisements and other temporary price reductions. These programs are offered to our customers both in fixed and variable (rate per case) amounts. The ultimate cost of these programs depends on retailer performance and is the subject of management estimates.

Certain retailers require the payment of product introductory fees in order to obtain space for the Company's products on the retailer's store shelves. This cost is typically a lump sum and is determined using the expected value based on the contract between the two parties.

Both trade marketing expense and product introductory fees are recognized as reductions of revenue at the time the transfer of control of the associated products occurs. Accruals for expected payouts under these programs are included as accrued trade marketing expense in the Consolidated Balance Sheet.

Consumer coupon redemption expenses are costs from the redemption of coupons we circulate as part of our marketing efforts. They are also recognized as reductions of net sales when the coupons are issued. Estimates of coupon redemption costs are based upon programs offered, timing of those offers, estimated redemption/usage rates from historical performance and current economic trends. These obligations are included in accrued liabilities in the Consolidated Balance Sheet.

The Company discloses revenue by reportable segment, geographical region and product type. A reconciliation of these disaggregated revenues is provided in Note 16, Segments.

The adoption of ASC 606 did not have a material impact on Pinnacle's consolidated results of operations for the three and six months ended July 1, 2018.

(thousands, except share and per share amounts and where noted in millions)

4. Acquisitions

Acquisition of a frozen warehouse and vegetable packaging business (the "Beaver Dam acquisition")

On December 15, 2017, the Company acquired a frozen warehouse and vegetable packaging business located in Beaver Dam, Wisconsin from Ryder Integrated Logistics, Inc. The cost of the acquisition was $37.5 million, which was paid in cash. Goodwill, which is not subject to amortization, has a book value of $10.7 million, all of which is deductible for tax purposes. The entire acquisition was allocated to the Frozen segment. Transaction costs of approximately $0.1 million incurred in connection with the acquisition were expensed as incurred and recorded in Other expense (income) in the Consolidated Statements of Operations. These costs primarily relate to legal and other professional fees.

The following table summarizes the allocation of the total cost of the acquisition to the assets acquired:

Assets acquired	
Land	$700
Buildings	22,043
Plant assets	4,091
Goodwill	10,653
Total cost of acquisition	$37,487

Unaudited pro forma revenue and net earnings related to the acquisition are not presented because the pro forma impact is not
material.

5. Fair Value Measurements

The authoritative guidance for financial assets and liabilities discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The guidance utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the Company’s assumptions.

(thousands, except share and per share amounts and where noted in millions)

The Company’s financial assets and liabilities subject to recurring fair value measurements and the required disclosures are as follows:

	July 1, 2018	Fair Value Measurements Using Fair Value Hierarchy			December 31, 2017	Fair Value Measurements Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets								
Interest rate derivatives	$27,505	$ —	$ 27,505	$ —	$ 8,194	$ —	$ 8,194	$ —
Foreign currency derivatives	295	—	295	—	—	—	—	—
Commodity derivatives	1,801	—	1,801	—	2,615	—	2,615	—
Total assets at fair value	$29,601	$ —	$ 29,601	$ —	$ 10,809	$ —	$ 10,809	$ —
Liabilities								
Foreign currency derivatives	$—	$ —	$ —	$ —	$ 750	$ —	$ 750	$ —
Commodity derivatives	600	—	600	—	336	—	336	—
Total liabilities at fair value	$600	$ —	$ 600	$ —	$ 1,086	$ —	$ 1,086	$ —

The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments. The primary risks managed by using derivative instruments are interest rate risk, foreign currency exchange risk and commodity price risk.

The valuations of these instruments are determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate, commodity, and foreign exchange forward curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with the provisions of the authoritative guidance for fair value disclosure, the Company incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the respective counterparty’s non-performance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of non-performance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. Other than the Tradename discussed below, the Company had no fair value measurements based upon significant unobservable inputs (Level 3) as of July 1, 2018 or December 31, 2017.

In addition to the instruments named above, the Company also makes fair value measurements in connection with any goodwill and tradename impairment testing. These measurements fall into Level 3 of the fair value hierarchy.

(thousands, except share and per share amounts and where noted in millions)

6. Other Expense, net

	Three months ended		Six months ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Other expense, net consists of:				
Amortization of intangibles/other assets	$2,328	$6,324	$4,656	$10,866
Foreign exchange losses/(gains)	369	(165)	894	(398)
Redemption premium on the early extinguishment of debt	4,267	—	4,267	—
Merger Agreement costs (Note 1)	10,836	—	10,836	—
Royalty income and other	(355)	(871)	(343)	(950)
Total other expense, net	$17,445	$5,288	$20,310	$9,518

Foreign exchange losses/(gains). These represent foreign exchange losses/(gains) from intra-entity loans resulting from the Company's November 2014 Garden Protein acquisition that are anticipated to be settled in the foreseeable future.

Redemption premium on the early extinguishment of debt. On May 30, 2018, the Company redeemed all $350.0 million of its outstanding 4.875% Senior Notes at a redemption price of 101.2% of the aggregate principle amount resulting in a redemption premium paid of $4.3 million (the "Redemption Premium").

7. Equity-Based Compensation Expense and Earnings Per Share

Equity-based Compensation

The Company currently grants equity awards under the Amended and Restated 2013 Omnibus Incentive Plan (the “Incentive Plan”). Equity-based compensation expense recognized during the period is based on the fair value of the portion of equity-based payment awards that is ultimately expected to vest during the period. As equity-based compensation expense recognized in the Consolidated Statements of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The authoritative guidance for equity-based compensation requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.
Expense Information
The following table summarizes equity-based compensation expense which was allocated as follows:

	Three months ended		Six months ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Cost of products sold	$806	$367	$1,412	$882
Marketing and selling expenses	1,391	1,746	1,900	2,913
Administrative expenses	3,302	3,247	6,288	5,554
Research and development expenses	201	187	379	307
Pre-tax equity-based compensation expense	5,700	5,547	9,979	9,656

Income tax benefit	(1,195)	(2,113)	(2,046)	(3,674)
Net equity-based compensation expense	$4,505	$3,434	$7,933	$5,982

Amended and Restated 2013 Omnibus Incentive Plan

In connection with the IPO, the Company adopted an equity incentive plan (the “2013 Omnibus Incentive Plan”) providing for the issuance of up to 11,300,000 shares of common stock. On May 25, 2016, the Company’ shareholders approved the Company’s Amended and Restated 2013 Omnibus Incentive Plan (the “Amended and Restated Omnibus Incentive Plan”). Awards granted

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(thousands, except share and per share amounts and where noted in millions)

under the Amended and Restated Omnibus Incentive Plan include non-qualified stock options, restricted shares and restricted stock units ("RSU's"), the majority of which vest in full three years from the date of grant. The Company also grants performance shares ("PS's") and performance share units ("PSU's") both of which vest based on achievement of total shareholder return performance goals. Awards of PS's and PSU's will be earned by comparing the Company's total shareholder return during a three-year period to the respective total shareholder returns of companies in the Company's performance peer group. Based upon the Company's ranking in the performance peer group, a recipient of PS's or PSU's may earn a total award ranging from 0% to 200% of the initial grant.

During the first quarter of 2018, as part of our ongoing equity compensation program:

- We granted 439,110 nonqualified stock options with grant date fair values of $10.06 and exercise prices of $54.10 using the BlackScholes pricing method to value the awards.
- We granted 141,628 PSU's with grant date fair values of $60.30 using the Monte Carlo simulation model to value the awards.
- We granted 185,241 RSU's with grant date fair values of $55.29, which was the average closing price of our stock on the dates of grant.

During the second quarter of 2018, as part of our ongoing equity compensation program:

- We granted 3,066 PSU's with weighted average grant date fair values of $68.06 using the Monte Carlo simulation model to value the awards.
- We granted 20,478 RSU's with weighted average grant date fair values of $63.64, which was the average closing price of our stock on the dates of grant.

Earnings Per Share

Basic earnings per common share is computed by dividing net earnings or loss for common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share are calculated by dividing net earnings by weighted-average common shares outstanding during the period plus dilutive potential common shares, which are determined as follows:

	Three months ended		Six months ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Weighted-average common shares	118,773,942	118,114,090	118,635,078	117,868,921
Effect of dilutive securities:	1,174,379	1,492,739	1,245,448	1,600,267
Dilutive potential common shares	119,948,321	119,606,829	119,880,526	119,469,188

Dilutive potential common shares are calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all options are used to repurchase common stock at market value. The amount of shares remaining after the proceeds are exhausted represents the potentially dilutive effect of the securities. For the three and six months ended July 1, 2018, conversion of securities totaling 760,575 and 503,634, respectively, into common share equivalents were excluded from this calculation as their effect would have been anti-dilutive. For the three and six months ended June 25, 2017, conversion of securities totaling 489,273, and 266,530, respectively, into common share equivalents were excluded from this calculation as their effect would have been anti-dilutive.

(thousands, except share and per share amounts and where noted in millions)

8. Accumulated Other Comprehensive Loss

The components of Accumulated other comprehensive loss consist of the following:

	Currency translation adjustments	Gains (Losses) on cash flow hedges	Change in pensions	Total
Balance, December 31, 2017	$ 2,095	$6,571	$(38,916)	$(30,250)
Other comprehensive (loss)/income before reclassification	(3,841)	16,075	—	12,234
Amounts reclassified from accumulated other comprehensive loss	—	(967)	358	(609)
Net current period other comprehensive (loss)/income	(3,841)	15,108	358	11,625
Adoption of ASU 2018-02	—	1,088	(6,417)	(5,329)
Balance, July 1, 2018	$ (1,746)	$22,767	$(44,975)	$(23,954)

	Currency translation adjustments	Gains (Losses) on cash flow hedges	Change in pensions	Total
Balance, December 25, 2016	$ (3,989)	$(8,234)	$(39,346)	$(51,569)
Other comprehensive loss before reclassification	1,765	(2,871)	—	(1,106)
Amounts reclassified from accumulated other comprehensive loss	—	13,352	357	13,709
Net current period other comprehensive (loss)/income	1,765	10,481	357	12,603
Balance, June 25, 2017	$ (2,224)	$2,247	$(38,989)	$(38,966)

The following table presents amounts reclassified out of Accumulated Other Comprehensive Loss ("AOCL") and into Net earnings for the three and six months ended July 1, 2018 and June 25, 2017, respectively.

	Amounts Reclassified from AOCL				
	Three months ended		Six months ended		
Details about Accumulated Other Comprehensive Loss Components	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017	Reclassified from AOCL to:
Gains and (losses) on financial instrument contracts					
Interest rate contracts	$1,166	$ 122	$1,311	$(21,652)	Interest expense
Foreign exchange contracts	61	156	(13)	55	Cost of products sold
Total pre-tax	1,227	278	1,298	(21,597)	
Tax (expense) benefit	(314)	(106)	(331)	8,245	Provision for income taxes
Net of tax	913	172	967	(13,352)	
Pension actuarial assumption adjustments					
Amortization of actuarial loss	(217)	(309)	(476)	(578)(a)	Cost of products sold
Tax benefit	54	119	118	221	Provision for income taxes

Net of tax	(163)	(190)	(358)	(357)
Net reclassifications into net earnings	$750	$ (18)	$609	$(13,709)

(a) This is included in the computation of net periodic pension cost (see Note 13 for additional details).

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9. Balance Sheet Information

Accounts Receivable. Customer accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for cash discounts, returns and bad debts is the Company's best estimate of these amounts. The Company determines the allowance based on historical discounts taken and write-off experience. The Company reviews its allowance for doubtful accounts quarterly. Account balances are charged off against the allowance when the Company concludes it is probable the receivable will not be recovered. The Company does not have any off-balance sheet credit exposure related to its customers. Accounts receivable are as follows:

	July 1, 2018	December 31, 2017
Customers	$263,631	$ 280,086
Allowances for cash discounts, bad debts and returns	(9,584)	(10,036)
Subtotal	254,047	270,050
Other receivables	10,311	11,572
Total	$264,358	$ 281,622

Inventories. Inventories are as follows:

	July 1, 2018	December 31, 2017
Raw materials	$98,547	$ 78,567
Work in progress (1)	39,684	65,800
Finished product	369,706	345,439
Total	$507,937	$ 489,806

(1) Work in progress is primarily agricultural inventory.

The Company has various purchase commitments for raw materials and certain finished products within the ordinary course of business. Such commitments are not at prices in excess of current market prices.

Plant Assets. Plant assets are as follows:

	July 1, 2018	December 31, 2017
Land	$15,648	$ 15,648
Buildings	333,519	327,501
Machinery and equipment	897,169	898,728
Projects in progress	73,899	64,038
Subtotal	1,320,235	1,305,915
Accumulated depreciation	(566,121)	(566,202)
Total	$754,114	$ 739,713

Depreciation was $25.0 million and $49.6 million during the three and six months ended July 1, 2018, respectively. Depreciation was $47.5 million and $70.0 million during the three and six months ended June 25, 2017, respectively, which included accelerated depreciation charges as described in Note 11. As of July 1, 2018 and December 31, 2017, Plant Assets included assets under capital lease with a book value of $58.8 million and $44.6 million (net of accumulated depreciation of $20.8 million and $18.6 million), respectively.

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Accrued Liabilities. Accrued liabilities are as follows:

	July 1, 2018	December 31, 2017
Employee compensation and benefits	$51,963	$ 39,699
Interest payable	17,537	19,254
Consumer coupons	3,493	2,400
Accrued restructuring charges (Note 11)	342	1,414
Accrued financial instrument contracts (Note 14)	543	988
Accrued broker commissions	7,070	6,994
Accrued income taxes	6,199	26,805
Other	32,798	24,577
Total	$119,945	$ 122,131

Other Long-Term Liabilities. Other long-term liabilities are as follows:

	July 1, 2018	December 31, 2017
Employee compensation and benefits	$14,618	$ 14,197
Long-term rent liability and deferred rent allowances	5,735	6,217
Liability for uncertain tax positions (a)	6,223	11,140
Accrued financial instrument contracts (Note 14)	57	98
Other	2,029	2,385
Total	$28,662	$ 34,037

(a) The decrease is primarily related to a change in our tax accounting methodology for capitalized inventory.

10. Goodwill, Tradenames and Other Assets

Goodwill

Goodwill by segment is as follows:

	Frozen	Grocery	Boulder	Specialty	Total
Balance, December 31, 2017	$764,824	$860,972	$364,883	$187,282	$2,177,961
Foreign currency adjustment	(2,671)	—	—	—	(2,671)
Balance, July 1, 2018	$762,153	$860,972	$364,883	$187,282	$2,175,290

The authoritative guidance for business combinations requires that all business combinations be accounted for at fair value under the acquisition method of accounting. The authoritative guidance for goodwill provides that goodwill will not be amortized, but will be tested for impairment on an annual basis or more often when events indicate. The Company completed its annual testing in the third quarter of 2017, which indicated no impairment.

(thousands, except share and per share amounts and where noted in millions)

Tradenames

Tradenames by segment are as follows:

	Frozen	Grocery	Boulder	Specialty	Total
Balance, December 31, 2017	$738,344	$1,253,622	$442,808	$28,600	$2,463,374
Foreign currency adjustment	(202)	—	—	—	(202)
Balance, July 1, 2018	$738,142	$1,253,622	$442,808	$28,600	$2,463,172

The authoritative guidance for indefinite-lived assets provides that indefinite-lived assets will not be amortized, but will be tested for impairment on an annual basis or more often when events indicate. Upon completion of the annual testing in the third quarter of 2017, the Company recorded tradename impairments of $24.8 million on Celeste, $6.5 million on Snyder of Berlin, $4.2 million on Nalley, $3.1 million on Bernstein and $0.5 million on Swanson. Celeste and Swanson are reported in the Frozen segment, Nalley and Bernstein are reported in the Grocery segment, and Snyder of Berlin is reported in the Specialty segment. These charges were the result of the Company's reassessment of the long-term sales projections for the brands during our annual planning cycle which occurs during the third quarter each year as well as a 50 basis point increase in the weighted average cost of capital assumed in the calculation. The total carrying value of these five tradenames as of July 1, 2018 is $25.4 million.

As a result of the Exit (as defined in Note 11) in the second quarter of 2017, the Company recorded a tradename impairment charge of $27.4 million on the related tradename, which resulted in a carrying value of $0. The charge is reported in the Frozen segment. See Note 11 for further details.

To estimate the fair value of our Tradenames we use the relief from royalty method, which utilizes forecasted discounted cash flows to estimate the fair value. The utilization of this method requires us to make significant assumptions including sales growth rates, implied royalty rates and discount rates. As of July 1, 2018, we identified an additional three tradenames which do not have a fair value that exceeded their carrying value by at least 15%. The total carrying value of these tradenames as of July 1, 2018 is $359.3 million.

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Other Assets

	July 1, 2018			
	Weighted Avg Life	Gross Carrying Amount	Accumulated Amortization	Net
Amortizable intangibles				
Recipes	10	$51,487	$(46,815)	$4,672
Customer relationships - Distributors	34	176,369	(63,229)	113,140
Customer relationships - Food Service	10	11,400	(4,744)	6,656
Total amortizable intangibles		$239,256	$(114,788)	$124,468
Financial instruments (see Note 14)		22,949	—	22,949
Other (1)		31,639	(5,085)	26,554
Total other assets, net				$173,971
	Amortizable intangibles by segment			
	Frozen			$38,036
	Grocery			45,511
	Boulder			31,774
	Specialty			9,147
				$124,468

	December 31, 2017			
	Weighted Avg Life	Gross Carrying Amount	Accumulated Amortization	Net
Amortizable intangibles				
Recipes	10	$51,514	$(46,458)	$5,056
Customer relationships - Distributors	34	176,376	(59,681)	116,695
Customer relationships - Food Service	10	11,400	(4,004)	7,396
Customer relationships - Private Label	7	1,290	(1,290)	—
Total amortizable intangibles		$240,580	$(111,433)	$129,147
Financial instruments (see Note 14)		8,160	—	8,160
Other (1)		32,607	(5,015)	27,592
Total other assets, net				$164,899
	Amortizable intangibles by segment			
	Frozen			$39,229
	Grocery			46,888
	Boulder			33,057
	Specialty			9,973
				$129,147

(1) As of July 1, 2018 and December 31, 2017, Other primarily consists of cost basis investments in companies in the natural and organic food and beverage industries acquired through the Boulder Brands acquisition as well as security

deposits, supplemental savings plan investments and debt acquisition costs associated with the Company's revolving credit facility.

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Amortization of intangible assets was $2.3 million and $4.7 million for the three and six months ended July 1, 2018. Amortization of intangible assets was $6.3 million and $10.9 million for the three and six months ended June 25, 2017. Estimated amortization expense for each of the next five years and thereafter is as follows: remainder of 2018 - $4.7 million; 2019 - $8.6 million; 2020 - $7.9 million; 2021 - $6.6 million; 2022 - $6.4 million and thereafter - $90.2 million.

11. Restructuring Charges

Aunt Jemima retail and foodservice frozen breakfast products exit (the "Exit")

On May 8, 2017, in connection with the Company's ongoing portfolio strategic assessment and margin roadmap, it exited certain low-margin and non-strategic Aunt Jemima retail and foodservice frozen breakfast products following the Company's voluntary recall discussed in Note 15. This decision resulted in restructuring charges primarily related to accelerated depreciation, asset impairment, charges to adjust inventory to net realizable value, workforce reductions and other charges. These actions and the associated charges detailed below are substantially complete.

In the second quarter of 2017, the Company recorded $63.2 million of charges related to the Exit which consisted of intangible asset impairment charges of $31.2 million, accelerated depreciation charges of $22.6 million, charges to adjust inventory to net realizable value of $4.6 million and employee termination costs of $1.5 million. In addition, the Company also recorded $3.3 million of contract termination and other fees during the same time period. The net impact on 2017 pre-tax earnings of $63.2 million is included in the various lines of the Consolidated Statement of Operations as follows: $32.0 million in Cost of products sold, $27.4 million of Tradename impairment charges and accelerated amortization charges of $3.8 million in Other expense related to frozen breakfast products customer relationships. Of the total charges, $48.8 million is recorded in the Frozen segment and $14.4 million in the Specialty segment.

The following table summarizes charges accrued as of July 1, 2018 related to the Exit. These amounts are recorded in our Consolidated Balance Sheet in Accrued Liabilities.

Description	Balance December 31, 2017	Expense	Payments	Balance July 1, 2018
Accrued restructuring charges	$ 1,126	$ —	$ (784)	$ 342

(thousands, except share and per share amounts and where noted in millions)

12. Debt and Interest Expense

	July 1, 2018	December 31, 2017
Short-term borrowings		
- Notes payable	$1,842	$2,739
Total short-term borrowings	$1,842	$2,739
Long-term debt		
- Tranche A Term Loans due 2023	$780,000	$—
- New Tranche B Term Loans due 2024	1,489,380	—
- Tranche B Term Loans due 2024	—	2,239,380
- 4.875% Senior Notes due 2021	—	350,000
- 5.875% Senior Notes due 2024	350,000	350,000
- Revolving Credit Facility	100,000	—
- 3.0% Note payable to Gilster Mary Lee Corporation	—	982
- Unamortized discount on long term debt and deferred financing costs	(14,066)	(21,846)
- Capital lease obligations	52,729	41,012
	2,758,043	2,959,528
Less: current portion of long-term obligations	54,126	33,934
Total long-term debt	$2,703,917	$2,925,594

Interest expense	Three months ended		Six months ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Interest expense	$28,841	$27,612	$59,096	$56,495
Amortization of debt acquisition costs	741	1,017	1,612	2,597
Non-cash recognition of deferred costs related to refinancing	1,768	—	12,681	28,494
Settlement of hedges related to refinancing	—	—	—	20,722
Interest rate swap (gains)/losses	(1,166)	(122)	(1,311)	930
Total interest expense	$30,184	$28,507	$72,078	$109,238

Fourth Amended and Restated Credit Agreement

On March 15, 2018, Pinnacle Foods Finance LLC, (1) entered into the First Amendment to the Third Amended and Restated Credit Agreement, which provided for both a six year term loan facility in the amount of $1,239.4 million (the "New Tranche B Term Loans") and a five year term loan facility in the amount of $800.0 million (the "Tranche A Term Loans") (together, the "Term Loans") (2) replaced the existing revolving credit facility with a new five year $300.0 million revolving credit facility, and (3) amended and restated the existing credit agreement (the "Fourth Amended and Restated Credit Agreement") in its entirety to make certain other amendments and modifications (the "First Quarter 2018 Refinancing").

As a result of the First Quarter 2018 Refinancing, Pinnacle Foods Finance LLC used the proceeds from the New Tranche B Term Loans and Tranche A Term Loans and $202.5 million of cash on hand to repay all existing indebtedness, including all outstanding accrued interest and fees, under the then existing Third Amended and Restated Credit Agreement, consisting of $2,239.4 million of Tranche B Term Loans.

In connection with the First Quarter 2018 Refinancing, Pinnacle Foods Finance LLC incurred $4.8 million of debt acquisition costs, which were recorded as a reduction of the carrying value of debt. Pinnacle Foods Finance LLC also incurred a non-cash charge of $10.9 million related to existing debt acquisition costs.

On May 30, 2018, Pinnacle Foods Finance LLC, entered into the First Amendment to the Fourth Amended and Restated Credit Agreement, to establish $250.0 million of incremental Term Loans (the "Incremental Term Loans") which have the same terms as the existing New Tranche B Term Loans. The proceeds together with cash on hand and $100.0 million borrowed under our revolving credit facility were used to redeem the entire $350.0 million in aggregate principal amount of Pinnacle Foods Finance LLC's 4.875% Senior Notes at a redemption price of 101.2% (the "Second Quarter 2018 Refinancing").

In connection with the Second Quarter 2018 Refinancing, Pinnacle Foods Finance LLC incurred $1.6 million of debt acquisition costs, which were recorded as a reduction of the carrying value of debt. Pinnacle Foods Finance LLC also incurred a non-cash charge of $1.8 million related to existing debt acquisition costs.

We refer to the First Quarter 2018 Refinancing and the Second Quarter 2018 Refinancing as the "2018 Refinancings".

Third Amended and Restated Credit Agreement

On February 3, 2017, Pinnacle Foods Finance LLC, (1) entered into the Fifth Amendment to the Second Amended and Restated Credit Agreement, which provided for a seven year term loan facility in the amount of $2,262.0 million (the "Tranche B Term Loans"), (2) replaced the existing revolving credit facility with a new five year $225.0 million revolving credit facility, and (3) amended and restated the existing credit agreement (the "Third Amended and Restated Credit Agreement") in its entirety to make certain other amendments and modifications (the "2017 Refinancing").

As a result of the 2017 Refinancing, Pinnacle Foods Finance LLC used the proceeds from the Tranche B Term Loans and $213.1 million of cash on hand to repay all existing indebtedness outstanding under the then existing Third Amended and Restated Credit Agreement, consisting of (a) $1,409.6 million of Tranche G Term Loans, (b) $507.9 million of Tranche H Term Loans and (c) $544.5 million of Tranche I Term Loans.

In connection with the 2017 Refinancing, Pinnacle Foods Finance LLC incurred $12.9 million of debt acquisition costs, which were recorded as a reduction of the carrying value of debt. Pinnacle Foods Finance LLC also incurred a non-cash charge of $28.5 million related to existing debt acquisition costs.

The Company's borrowings under the March 15, 2018 Fourth Amended and Restated Credit Agreement bear interest at a floating rate and are maintained as base rate loans or as eurocurrency rate loans. Base rate loans bear interest at the base rate plus the applicable base rate margin. The base rate is defined as the highest of (i) the administrative agent's prime rate, (ii) the federal funds effective rate plus 1/2 of 1.00%, (iii) the eurocurrency rate that would be payable on such day for a eurocurrency rate loan with a one-month interest period plus 1.00%, and (iv) 1.00% per annum. Eurocurrency rate loans bear interest at the adjusted eurocurrency rate plus the applicable eurocurrency rate margin. The eurocurrency rate is determined by the administrative agent to be the offered rate which appears on the page of the Reuters Screen which displays the London interbank offered rate administered by ICE Benchmark Administration Limited (the "LIBO Rate") for deposits.

With respect to the New Tranche B Term Loans, the base rate shall be no less than 1.0% and the base rate margin is 0.75%. Further, the eurocurrency rate shall be no less than 0.0% and the eurocurrency rate margin is 1.75%.

With respect to the Tranche A Term Loans, the base rate shall be no less than 1.0%. The base rate margin is 0.50% when the Company's Total Leverage Ratio is less than or equal to 3.75:1.00, 0.625% when the Total Leverage Ratio is less than or equal to 5.00:1.00 but greater than 3.75:1.00, and 0.75% when the Total Leverage Ratio is greater than 5.00:1.00. The Total Leverage Ratio is calculated by dividing consolidated total debt less the aggregate amount of all unrestricted cash and cash equivalents by Covenant Compliance EBITDA. The eurocurrency rate shall be no less than 0.0%. The eurocurrency rate margin is 1.50% when the Company's Total Leverage Ratio is less than or equal to 3.75:1.00, 1.625% when the Total Leverage Ratio is less than or equal to 5.00:1.00 but greater than 3.75:1.00 and 1.75% when the Total Leverage Ratio is greater than 5.00:1.00.

The obligations under the Fourth Amended and Restated Credit Agreement are unconditionally and irrevocably guaranteed by Peak Finance Holdings LLC, any subsidiary of Peak Finance Holdings LLC that directly or indirectly owns 100% of the issued and outstanding equity interests of Pinnacle Foods Finance LLC, subject to certain exceptions, each of Pinnacle Foods Finance LLC's direct or indirect material wholly-owned domestic subsidiaries (collectively, the "Guarantors").

A commitment fee of 0.30% per annum is applied to the unused portion of the revolving credit facility.

Pinnacle Foods Finance LLC pays a fee for all outstanding letters of credit drawn against the revolving credit facility at an annual rate equivalent to the applicable eurocurrency rate margin then in effect under the revolving credit facility, plus the fronting fee payable in respect of the applicable letter of credit. The fronting fee is equal to 0.125% per annum of the daily maximum amount then available to be drawn under such letter of credit. The fronting fees are computed on a quarterly basis in arrears. Total letters of credit issued under the revolving credit facility cannot exceed $50.0 million.

Under the terms of the Fourth Amended and Restated Credit Agreement, Pinnacle Foods Finance LLC is required to use 50% of its "Excess Cash Flow" to prepay the Term Loans under the Senior Secured Credit Facility (which percentage will be reduced to 25% at a total net leverage ratio of between 4.50 and 5.49 and to 0% at a total net leverage ratio below 4.50). Excess Cash Flow is defined as consolidated net income (as defined), as adjusted for certain items, including (1) all non-cash charges and credits included in arriving at consolidated net income, (2) changes in working capital, (3) capital expenditures (to the extent they were not financed with debt), (4) the aggregate amount of principal payments on indebtedness and (5) certain other items defined in the Senior Secured Credit Facility.

No scheduled repayments of the New Tranche B Term Loans shall be required prior to the maturity date.

The Tranche A Term Loans amortize in quarterly installments of 1.25% of their aggregate funded total principal amount. The scheduled principal payments of the Tranche A Term Loans outstanding as of July 1, 2018 are $10.0 million in 2018, $40.0 million in 2019, $40.0 million in 2020, $40.0 million in 2021, $40.0 million in 2022, and $610.0 million in 2023.

Pursuant to the terms of the Senior Secured Credit Facility, Pinnacle Foods Finance LLC is required to maintain a ratio of Net First Lien Secured Debt to Adjusted EBITDA of no greater than 5.75 to 1.00. Net First Lien Secured Debt is defined as aggregate consolidated secured indebtedness, less the aggregate amount of all unrestricted cash and cash equivalents. In addition, under the Senior Secured Credit Facility and the indenture governing the Senior Notes, Pinnacle Foods Finance LLC's ability to engage in activities such as incurring additional indebtedness, making investments and paying dividends is tied to the Senior Secured Leverage Ratio (which is currently the same as the ratio of Net First Lien Secured Debt to Adjusted EBITDA described above), in the case of the Senior Secured Credit Facility, or to the ratio of Adjusted EBITDA to fixed charges for the most recently concluded four consecutive fiscal quarters, in the case of the Senior Notes. The Senior Secured Credit Facility also permits restricted payments up to an aggregate amount of (together with certain other amounts) the greater of $75 million and 2% of Pinnacle Foods Finance LLC's consolidated total assets, so long as no default has occurred and is continuing and its pro forma Senior Secured Leverage Ratio would be no greater than 4.25 to 1.00. As of July 1, 2018, the Company is in compliance with all covenants and other obligations under the Senior Secured Credit Facility and the indenture governing the Senior Notes.

Senior Notes

The Company's 5.875% Senior Notes are general senior unsecured obligations of Pinnacle Foods Finance LLC, effectively subordinated to all existing and future senior secured indebtedness of Pinnacle Foods Finance LLC to the extent of the value of the assets securing that indebtedness and guaranteed on a full, unconditional, joint and several basis by Pinnacle Foods Finance LLC’s wholly-owned domestic subsidiaries that guarantee other indebtedness of

Pinnacle Foods Finance LLC and by the Company. See Note 19 for Guarantor and Nonguarantor Financial Statements.

Pinnacle Foods Finance LLC may redeem some or all of the 5.875% Senior Notes at any time prior to January 15, 2019 at a price equal to 100% of the principal amount of the 5.875% Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest to, the redemption date, subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date. The “Applicable Premium” is defined as the greater of (1) 1.0% of the principal amount of such 5.875% Senior Notes and (2) the excess, if any, of (a) the present value at such redemption date of (i) the redemption price of such 5.875% Senior Notes at January 15, 2019, plus (ii) all required interest payments due on such 5.875% Senior Notes through January 15, 2019 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the treasury rate plus 50 basis points over (b) the principal amount of such 5.875% Senior Notes.

Pinnacle Foods Finance LLC may redeem the 5.875% Senior Notes at the redemption prices listed below, if redeemed during the twelve-month period beginning on January 15th of each of the years indicated below:

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Year	Percentage
2019	104.406%
2020	102.938%
2021	101.469%
2022 and thereafter	100.000%

In addition, until January 15, 2019 for the 5.875% Senior Notes, Pinnacle Foods Finance LLC may redeem up to 35% of the aggregate principal amount of the 5.875% Senior Notes at a redemption price equal to 100% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, subject to the right of holders of the 5.875% Senior Notes of record on the relevant record date to receive interest due on the relevant interest payment date, with the net cash proceeds received by Pinnacle Foods Finance LLC from one or more equity offerings; provided that (i) at least 50% of the aggregate principal amount of the 5.875% Senior Notes originally issued under the indenture remains outstanding immediately after the occurrence of each such redemption and (ii) each such redemption occurs within 120 days of the date of closing of each such equity offering.

Debt acquisition costs
As part of the 2018 Refinancings, for the six months ended July 1, 2018, debt acquisition costs of $6.4 million were incurred as a reduction of the carrying value of debt and non-cash charges related to existing debt acquisition costs of $12.7 million were recognized in interest expense.
All debt acquisition costs are amortized into interest expense over the life of the related debt using the effective interest method. Amortization of these costs were $0.7 million and $1.5 million during the three and six months ended July 1, 2018, respectively. Amortization of these costs were $1.0 million and $2.5 million during the three and six months ended June 25, 2017, respectively.
The following summarizes debt acquisition cost activity during the six months ended July 1, 2018:

	Gross Carrying Amount	Accumulated Amortization	Net
Balance, December 31, 2017	$29,689	$ (7,843)	$21,846
Additions	6,440	—	6,440
Amortization	—	(1,539)	(1,539)
Recognition of deferred costs	(17,638)	4,957	(12,681)
Balance, July 1, 2018	$18,491	$ (4,425)	$14,066

Estimated fair value
The estimated fair value of the Company’s long-term debt, including the current portion, as of July 1, 2018, is as follows:

	July 1, 2018	
Issue	Face Value	Fair Value
Tranche A Term Loans	780,000	780,000
New Tranche B Term Loans	1,489,380	1,489,380
5.875% Senior Notes	350,000	364,875
	$2,619,380	$2,634,255

The estimated fair value of the Company’s long-term debt, including the current portion, as of December 31, 2017, is as follows:

(thousands, except share and per share amounts and where noted in millions)

	December 31, 2017	
Issue	Face Value	Fair Value
Tranche B Term Loans	$2,239,380	$2,259,534
3.0% Note payable to Gilster Mary Lee Corporation	982	982
4.875% Senior Notes	350,000	353,938
5.875% Senior Notes	350,000	370,125
	$2,940,362	$2,984,579

The estimated fair values of the Company's long-term debt are classified as Level 2 in the fair value hierarchy. The fair value is based on the quoted market price for such notes and loans and borrowing rates currently available to the Company for notes and loans with similar terms and maturities.

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13. Pension and Retirement Plans
The Company accounts for pension and retirement plans in accordance with the authoritative guidance for retirement benefit compensation. This guidance requires recognition of the funded status of a benefit plan in the statement of financial position. The guidance also requires recognition in accumulated other comprehensive earnings of certain gains and losses that arise during the period but are deferred under pension accounting rules.
The Company maintains a defined benefit plan, the Pinnacle Foods Group LLC Pension Plan (the "Plan"), which is frozen for future benefit accruals. The Company also has two 401(k) plans, three non-qualified supplemental savings plans and the Company participates in a multi-employer defined benefit plan.

Pinnacle Foods Group LLC Pension Plan
The Plan covers eligible employees and provides benefits generally based on years of service and employees' compensation. The Plan is frozen for future benefits and is funded in conformity with the funding requirements of applicable government regulations. The Plan assets consist principally of cash equivalents, equity and fixed income common collective trusts. The Plan assets do not include any of the Company's equity or debt securities.
The following represents the components of net periodic (benefit):

Pension Benefits	Three months ended		Six months ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Interest cost	1,871	1,993	3,741	3,985
Expected return on assets	(2,931)	(2,753)	(5,862)	(5,507)
Amortization of actuarial loss	259	269	518	539
Net periodic benefit	$ (802)	$ (491)	$ (1,603)	$ (983)

As noted in Note 18, Recently Issued Accounting Pronouncements, we adopted guidance on the presentation of net periodic pension and postretirement benefit cost during the first quarter of fiscal year 2018. The amendments require that non-service related costs are presented outside of operating income in "Non-operating income."

Cash Flows
Contributions. The Company made contributions of $0.9 million to the Plan during the second quarter of 2018, and plans to make contributions of approximately $6.0 million for the remainder of fiscal 2018. The Company made contributions to the Plan totaling $0.3 million in fiscal 2017.
Multi-employer Plans

The Company contributes to the United Food and Commercial Workers International Union Industry Pension Fund (EIN 51-6055922) (the "UFCW Plan") under the terms of the collective-bargaining agreement with its Fort Madison employees.

For the three and six months ended July 1, 2018, contributions to the UFCW Plan were $0.2 million and $0.3 million, respectively. For the three and six months ended June 25, 2017 contributions to the UFCW Plan were $0.1 million and $0.3 million, respectively. The contributions to this UFCW Plan are paid monthly based upon the number of employees. They represent less than 5% of the total contributions received by this UFCW Plan using available information during the most recent plan year.

The risks of participating in multi-employer plans are different from single-employer plans in the following aspects: (a) assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the multi-employer plan, the unfunded obligations of the plan may be borne by the remaining participating employers and (c) if the Company chooses to stop participating in the plan, the Company may be required to pay a withdrawal liability based on the underfunded status of the plan.

The UFCW Plan received a Pension Protection Act “green” zone status for the plan year ending June 30, 2017. The zone status is based on information the Company received from the UFCW Plan and is certified by the UFCW Plan's actuary. Among other factors, plans in the "green" zone are at least 80 percent funded. The UFCW Plan did not utilize any extended amortization provisions that affect its placement in the "green" zone. The UFCW Plan has never been required to implement a funding improvement plan nor is one pending at this time.

14. Financial Instruments

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. The primary risks managed by using derivative instruments are interest rate risk, foreign currency exchange risk and commodity price risk. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates, foreign exchange rates or commodity prices.

The Company manages interest rate risk based on the varying circumstances of anticipated borrowings and existing variable and fixed rate debt, including the Company’s revolving credit facility. Examples of interest rate management strategies include capping interest rates using targeted interest cost benchmarks, hedging portions of the total amount of debt, or hedging a period of months and not always hedging to maturity, and at other times locking in rates to fix interests costs.

Certain parts of the Company’s foreign operations in Canada expose the Company to fluctuations in foreign exchange rates. The Company’s goal is to reduce its exposure to such foreign exchange risks on its foreign currency cash flows and fair value fluctuations on recognized foreign currency denominated assets, liabilities and unrecognized firm commitments to acceptable levels primarily through the use of foreign exchange-related derivative financial instruments. The Company enters into derivative financial instruments to protect the value or fix the amount of certain obligations in terms of its functional currency. The Company does not enter into these transactions for non-hedging purposes.

The Company purchases raw materials in quantities expected to be used in a reasonable period of time in the normal course of business. The Company generally enters into agreements for either spot market delivery or forward delivery. The prices paid in the forward delivery contracts are generally fixed, but may also be variable within a capped or collared price range. Forward derivative contracts on certain commodities are entered into to manage the price risk associated with forecasted purchases of materials used in the Company’s manufacturing processes.

Cash Flow Hedges of Interest Rate Risk

The Company’s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. During the three and six months ended July 1, 2018 and June 25, 2017, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

The 2017 Refinancing (Note 12) resulted in significant changes to the Company's debt obligations. For the interest rate swaps in place at the time that were scheduled to mature between April 2017 and April 2020, it became probable that the associated original forecasted transactions would not occur. As such, the Company discontinued hedge accounting, accelerated the reclassification of amounts in Accumulated other comprehensive loss ("AOCL") and settled the interest rate swaps with the various counter parties. In the first quarter of 2017, these accelerated amounts resulted in a $20.7 million charge to interest expense ($13.2 million, net of tax benefits).

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As of July 1, 2018, the Company had the following interest rate swaps that were designated as cash flow hedges of interest rate risk:

Product	Number of Instruments	Current Notional Amount	Trade Dates	Maturity Dates
Interest Rate Swaps	14	$1,499,000	Feb 2017 - Jan 2018	Jan 2019 - Feb 2023

The changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCL in the Consolidated Balance Sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Amounts reported in AOCL related to derivatives will be reclassified to Interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional $8.9 million will be reclassified as a decrease to Interest expense.

Cash Flow Hedges of Foreign Exchange Risk

The Company's operations in Canada expose the Company to changes in the U.S. Dollar – Canadian Dollar ("USD-CAD") foreign exchange rate. From time to time, the Company's Canadian subsidiary purchases inventory denominated in U.S. Dollars ("USD"), a currency other than its functional currency. The subsidiary sells that inventory in Canadian dollars ("CAD"). The subsidiary uses currency forward and collar agreements to manage its exposure to fluctuations in the USD-CAD exchange rate. Currency forward agreements involve fixing the USD-CAD exchange rate for delivery of a specified amount of foreign currency on a specified date. Currency collar agreements involve the sale of CAD currency in exchange for receiving USD if exchange rates rise above an agreed upon rate and purchase of USD currency in exchange for paying CAD currency if exchange rates fall below an agreed upon rate at specified dates.

As of July 1, 2018, the Company had the following foreign currency exchange contracts (in aggregate) that were designated as cash flow hedges of foreign exchange risk:

Product	Number of Instruments	Notional Purchased in Aggregate in USD	Trade Date	Maturity Dates
CAD $ Contracts	6	$14,017	Jul 2017	Aug 2018 - Dec 2018

The changes in the fair value of derivatives designated that qualify as cash flow hedges of foreign exchange risk is recorded in AOCL in the Consolidated Balance Sheets and subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Amounts excluded from the assessment of hedge effectiveness, are recognized directly in Cost of products sold in the Consolidated Statements of Operations. During the next twelve months, the Company estimates that an additional $0.3 million will be reclassified as a decrease to Cost of Products Sold expense.

Non-designated Hedges of Commodity Risk

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to commodity price risk but do not meet the authoritative guidance for hedge accounting. From time to time, the Company enters into commodity forward contracts to fix the price of diesel fuel, heating oil, natural gas and soybean oil purchases and other commodities at a future delivery date. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in Cost of products sold in the Consolidated Statements of Operations.

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As of July 1, 2018, the Company had the following derivative instruments that were not designated in qualifying hedging relationships:

Commodity Contracts	Number of Instruments	Notional Purchased in Aggregate in USD	Trade Dates	Maturity Dates
Commodity Contracts	68	$12,388	Feb 2017 - May 2018	July 2018 - Dec 2019

The table below presents the fair value of the Company's derivative financial instruments as well as their classification in the Consolidated Balance Sheets as of July 1, 2018 and December 31, 2017.

	Tabular Disclosure of Fair Values of Derivative Instruments			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value as of July 1, 2018	Balance Sheet Location	Fair Value as of July 1, 2018
Derivatives designated as hedging instruments				
Interest Rate Contracts	Other current assets	$ 4,556	Accrued liabilities	$ —
	Other assets, net	22,949	Other long-term liabilities	—
Foreign Exchange Contracts	Other current assets	295	Accrued liabilities	—
	Other assets, net	—	Other long-term liabilities	—
Total derivatives designated as hedging instruments		$ 27,800		$ —
Derivatives not designated as hedging instruments				
Commodity Contracts	Other current assets	$ 1,801	Accrued liabilities	$ 543
	Other assets, net	—	Other long-term liabilities	57
Total derivatives not designated as hedging instruments		$ 1,801		$ 600
	Balance Sheet Location	Fair Value as of December 31, 2017	Balance Sheet Location	Fair Value as of December 31, 2017
Derivatives designated as hedging instruments				
Interest Rate Contracts	Other current assets	$ 34	Accrued liabilities	$ —

	Other assets, net	8,160	Other long-term liabilities	—
Foreign Exchange Contracts	Other current assets	—	Accrued liabilities	750
Total derivatives designated as hedging instruments		$ 8,194		$ 750
Derivatives not designated as hedging instruments				
Commodity Contracts	Other current assets	$ 2,615	Accrued liabilities	$ 238
	Other assets, net	—	Other long-term liabilities	98
Total derivatives not designated as hedging instruments		$ 2,615		$ 336

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The Company has elected not to offset the fair values of derivative assets and liabilities executed with the same counterparty that are generally subject to enforceable netting agreements. However, if the Company were to offset and record the asset and liability balances of derivatives on a net basis, the amounts presented in the Consolidated Balance Sheets as of July 1, 2018 and December 31, 2017 would be adjusted as detailed in the following table:

	July 1, 2018			December 31, 2017		
Derivative Instrument	Gross Amounts Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet Subject to Netting Agreements	Net Amount	Gross Amounts Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet Subject to Netting Agreements	Net Amount
Total asset derivatives	$29,601	(283)	$29,318	$10,809	(1,086)	$ 9,723
Total liability derivatives	$600	(283)	$317	$1,086	(1,086)	$ —

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The table below presents the effect of the Company's derivative financial instruments in the Consolidated Statements of Operations and AOCL for the three and six months ended July 1, 2018 and June 25, 2017.

Tabular Disclosure of the Effect of Derivative Instruments
Gain/(Loss)

Derivatives in Cash Flow Hedging Relationships	Recognized in AOCL on Derivative	Portion reclassified from AOCL to:	Reclassified from AOCL into Earnings	Consolidated Statements of Operations Hedged Items impact	Income/(Expense) related to Hedged Items
Interest Rate Contracts	$ 7,708	Interest expense	$ 1,166	Interest expense	$ (12,610)
Foreign Exchange Contracts	345	Cost of products sold	61	Cost of products sold	(7,001)
Three months ended July 1, 2018	$ 8,053		$ 1,227		
Interest Rate Contracts	$ 20,623	Interest expense	$ 1,311	Interest expense	$ (24,208)
Foreign Exchange Contracts	1,035	Cost of products sold	(13)	Cost of products sold	(13,998)
Six months ended July 1, 2018	$ 21,658		$ 1,298		
Interest Rate Contracts	$ (5,108)	Interest expense	$ 122	Interest expense	$ (11,236)
Foreign Exchange Contracts	(39)	Cost of products sold	156	Cost of products sold	(6,846)
Three months ended June 25, 2017	$ (5,147)		$ 278		
Interest Rate Contracts	$ (4,869)	Interest expense	$ (21,652) (a)	Interest expense	$ (22,087)
Foreign Exchange Contracts	217	Cost of products sold	55	Cost of products sold	(13,564)
Six months ended June 25, 2017	$ (4,652)		$ (21,597)		

Derivatives Not Designated as Hedging Instruments	Recognized in Earnings in:	Recognized in Earnings
Commodity Contracts	Cost of products sold	$ 598
Three months ended July 1, 2018		$ 598
Commodity Contracts	Cost of products sold	$ 980
Six months ended July 1, 2018		$ 980

Commodity Contracts	Cost of products sold	$ (2,034)
Interest Rate Contracts	Interest expense	—
Three months ended June 25, 2017		$ (2,034)
Commodity Contracts	Cost of products sold	$ (4,003)
Interest Rate Contracts	Interest expense	20,723
Six months ended June 25, 2017		$ 16,720

(a) Includes $20.7 million of accelerated reclassifications out of AOCL, related to the 2017 Refinancing.

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Credit risk-related contingent features

The Company has agreements with certain counterparties that contain a provision whereby the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company’s default on the indebtedness. As of July 1, 2018, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, was $0.3 million. As of July 1, 2018, the Company has not posted any collateral related to these agreements. If the Company has breached any of these provisions at July 1, 2018, it could have been required to settle its obligations under the agreements at their termination value of $0.3 million.

15. Commitments and Contingencies

General

From time to time, the Company and its subsidiaries are parties to, or targets of, lawsuits, claims, investigations, and proceedings, which are being handled and defended in the ordinary course of business. Although the outcome of such items cannot be determined with certainty, the Company’s general counsel and management are of the opinion that the final outcome of these matters will not have a material effect on the Company’s financial condition, results of operations or cash flows.

Aunt Jemima retail and foodservice frozen breakfast products recall (the "Recall")

On May 5, 2017, the Company issued a voluntary recall for certain Aunt Jemima retail and foodservice frozen breakfast products due to potential bacterial contamination. The cost impact of the Recall for the fiscal year ended December 31, 2017 is a charge to gross margin of $13.0 million, of which $10.8 million is recorded as a reduction of Net Sales related to customer returns with the remaining $2.2 million relating to freight and disposal costs, charged directly to Cost of products sold. Of these costs, $6.5 million is reported in the Frozen segment, with an additional $6.5 million recorded in the Specialty segment. The Company has insurance coverage that it expects will cover a portion of the cost of the Recall. Any insurance proceeds will be recorded in the period they are received.

16. Segments

The Company is a leading manufacturer, marketer and distributor of high quality, branded food products in North America. The business is comprised of four reportable segments: Frozen, Grocery, Boulder and Specialty.

The Frozen segment is comprised of the retail businesses of the Company’s frozen brands, including vegetables (Birds Eye), complete bagged meals (Birds Eye Voila! and Birds Eye Signature Skillets), full-calorie single-serve frozen dinners and entrées (Hungry-Man), prepared seafood (Van de Kamp's and Mrs. Paul's), frozen and refrigerated bagels (Lender's) and pizza for one (Celeste). The Frozen segment also includes all of the Company’s business in Canada, including those of the Garden Protein International and Boulder Brands acquisitions.

The Grocery segment is comprised of the retail businesses of the Company’s grocery brands, including cake/brownie mixes and frostings (Duncan Hines), shelf-stable pickles (Vlasic), salad dressings (Wish-Bone, Western and Bernstein’s), table syrups (Log Cabin and Mrs. Butterworth's), refrigerated and shelf-stable spreads (Smart Balance), canned meat (Armour, Nalley and Brooks), pie and pastry fillings (Duncan Hines Comstock and Wilderness) and barbecue sauces (Open Pit).

The Boulder segment is comprised of the retail businesses of the Company’s health and wellness lifestyle brands, including gluten- free products (Udi's and Glutino), natural frozen meal offerings (EVOL), plant-based refrigerated and shelf-stable spreads (Earth Balance) and plant-based protein frozen products (gardein).

The Specialty segment includes the Company’s snack products (Tim's Cascade and Snyder of Berlin) and all of its U.S. foodservice and private label businesses, including those of the Garden Protein International and Boulder Brands acquisitions.

Segment performance is evaluated by the Company’s Chief Operating Decision Maker and is based on earnings before interest and taxes. Transfers between segments and geographic areas are recorded at cost plus markup or at market. Identifiable assets are those assets, including goodwill, which are identified with the operations in each segment or geographic region. Corporate assets consist of prepaid and deferred tax assets. Unallocated corporate expenses consist of corporate overhead such as executive management, finance and legal functions.

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SEGMENT INFORMATION	Three months ended July 1, 2018	Three months ended June 25, 2017	Six months ended July 1, 2018	Six months ended June 25, 2017
Net sales				
Frozen	$308,504	$295,893	$653,375	$616,835
Grocery	256,620	276,057	517,627	535,407
Boulder	98,898	94,654	196,654	191,946
Specialty	77,739	78,004	152,937	166,494
Total	$741,761	$744,608	$1,520,593	$1,510,682
Earnings before interest and taxes				
Frozen	$49,740	$(12,260)	$103,451	$38,662
Grocery	52,131	61,870	101,879	113,677
Boulder	16,018	12,249	27,869	18,921
Specialty	9,489	(10,648)	17,705	(1,760)
Unallocated corporate expenses	(23,330)	(7,191)	(31,155)	(14,272)
Total	$104,048	$44,020	$219,749	$155,228
Depreciation and amortization				
Frozen	$11,805	$38,625	$23,439	$49,194
Grocery	7,838	7,824	15,587	15,900
Boulder	4,565	3,686	8,917	7,447
Specialty	3,155	3,676	6,308	8,358
Total	$27,363	$53,811	$54,251	$80,899
Capital expenditures (1)				
Frozen	$24,272	$8,275	$48,546	$21,593
Grocery	9,244	6,214	18,424	13,744
Boulder	2,790	5,477	6,682	13,222
Specialty	1,143	4,275	4,582	9,747
Total	$37,449	$24,241	$78,234	$58,306
NET SALES BY PRODUCT TYPE				
Net sales				
Frozen	$395,637	$391,929	$825,376	$799,789
Shelf stable and meal enhancers	248,520	238,695	486,195	486,101
Desserts	62,530	77,389	140,278	154,635
Snacks	35,074	36,595	68,744	70,157
Total	$741,761	$744,608	$1,520,593	$1,510,682
GEOGRAPHIC INFORMATION				
Net sales				
United States	$727,661	$729,927	$1,491,854	$1,484,514
Canada	37,445	37,501	78,819	74,195
Intercompany	(23,345)	(22,820)	(50,080)	(48,027)
Total	$741,761	$744,608	$1,520,593	$1,510,682

(1) Includes new capital leases.

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SEGMENT INFORMATION	July 1, 2018	December 31, 2017
Total assets		
Frozen	$2,347,290	$ 2,417,543
Grocery	2,731,780	2,787,209
Boulder	994,489	1,005,209
Specialty	351,620	357,040
Corporate	9,983	11,263
Total	$6,435,162	$ 6,578,264
GEOGRAPHIC INFORMATION		
Plant assets		
United States	$724,124	$ 707,670
Canada	29,990	32,043
Total	$754,114	$ 739,713

17. Provision for Income Taxes

The provision for income taxes and related effective tax rates for the three and six months ended July 1, 2018 and June 25, 2017, respectively, were as follows:

	Three months ended		Six months ended	
Provision (benefit) for income taxes	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Current	$10,973	$7,746	$22,381	$10,031
Deferred	6,651	(10,838)	12,348	(5,780)
Total	$17,624	$(3,092)	$34,729	$4,251
Effective tax rate	23.9 %	(19.9)%	23.5 %	9.2 %

Income taxes are accounted for in accordance with the authoritative guidance for accounting for income taxes under which deferred tax assets and liabilities are determined based on the difference between their financial statement basis and tax basis, using enacted tax rates in effect for the year in which the differences are expected to reverse. In the first quarter of 2017, we retrospectively adopted the guidance of ASU 2015-17, “Balance Sheet Classification of Deferred Taxes” and in connection, are presenting all deferred tax asset and liability balances as non-current on our consolidated balance sheet for the three months ended April 1, 2018 and the year ended December 31, 2017 in this filing.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into law. Among other provisions, the Act reduced the federal statutory corporate income tax rate from 35.0% to 21.0%. The Company continues to evaluate the impact of certain foreign and domestic income provisions of the Act and for the three and six months ended July 1, 2018 has determined those provisions will not have a material effect on its fiscal year 2018 financial statements. Once the Company finalizes its analysis of the Act it will be able to conclude on any further adjustments to be recorded in these provisional amounts. Any such adjustment is reported as a component of income taxes in the reporting period in which such adjustments are determined, which will be no later than the fourth quarter of 2018, or as a component of our 2018 annualized effective income tax rate, depending on the nature of the adjustment.

Our effective income tax rate for the three and six months ended July 1, 2018 reflects a decrease in the federal rate to 21.0% as a result of the Act. The rate also includes a benefit of 1.1% and 1.5%, respectively, from share based payment transactions being recorded as an item of continuing operations in accordance with ASU 2016-09, “Improvements to Employee Share-Based Payment

Accounting” effective for our 2017 fiscal year, a benefit of 1.6% and 0.8%, respectively from an adjustment to our income tax liability, a charge of 0.6% and 1.0%, respectively, from changes in state tax law and a charge of 1.0% and .5%, respectively, from non-deductible transaction costs in connection with the Merger Agreement.

Our effective income tax rate for the three and six months ended June 25, 2017 reflects the former 35.0% federal rate and includes a benefit of 40.6% and 21.9%, respectively, from share based payment transactions being recorded as an item of continuing operations in accordance with ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting” effective for our 2017 fiscal year and a benefit of 15.5% and 5.2%, respectively, from changes in state tax law.

The Company regularly evaluates its deferred tax assets for future realization. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the Company's tax provision in the period of change. There was no significant movement in our valuation allowances during the three and six months ended July 1, 2018 and June 25, 2017.

The Company is a loss corporation as defined by Internal Revenue Code (“the Code”) Section 382. Section 382 places an annual limitation on our ability to use our federal net operating loss (“NOL”) carryovers and other attributes to reduce future taxable income. As of July 1, 2018, we have federal NOL carryovers of $408.3 million subject to an annual limitation of $17.1 million. As a result, $237.2 million of the carryovers exceed the estimated available Section 382 limitation. The Company has reduced its deferred tax assets for this limitation.

18. Recently Issued Accounting Pronouncements

Accounting Pronouncement Adopted in 2018

In May 2014, the FASB issued ASU No. 2014-09, guidance based on the principle that revenue is recognized in an amount expected to be collected and to which the entity expects to be entitled in exchange for the transfer of goods or services. In August 2015, the FASB deferred the effective date by one year while providing the option to early adopt the standard on the original effective date. Accordingly, the Company adopted the standard in the first quarter of fiscal 2018. We analyzed the impact that the new guidance has on our policies, processes, controls, and disclosures. This assessment required, among other things, a review of the contracts we have with our customers. Substantially all of our revenue is earned pursuant to agreements under which we have one performance obligation, which is satisfied at a point-in-time. Based on our analysis, this ASU did not have a material effect on the timing or amount of revenue recognition, our results of operations, our financial position or our control environment. Our disclosures changed as appropriate to comply with the new guidance. See Note 3 for further details.

In March 2017, the FASB issued ASU 2017-07, "Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". ASU 2017-07 requires the service cost component of net periodic benefit cost be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period and other components of the net periodic benefit cost be presented separately from the line item that includes the service cost and outside of any subtotal of operating income. The Company adopted this guidance during the first quarter of 2018. The amendments have been applied retrospectively for the income statement presentation requirements. Prior to adoption of the guidance, we classified all net periodic benefit costs within operating costs, specifically Cost of products sold on the consolidated statements of operations. The line item classification changes required by the new guidance did not impact the Company's pre-tax earnings or net income; however, Gross Profit and Non-operating income changed by immaterial offsetting amounts.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting". ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in the update are effective for all annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued. The Company adopted this guidance in the first quarter of fiscal 2018. This guidance did not have an impact on our consolidated financial statements upon adoption.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". ASU 2017-12 provides guidance that amends hedge accounting. Under the new guidance, more hedging strategies will be eligible for hedge accounting and the application of hedge accounting is simplified. The new guidance amends presentation and disclosure requirements, and how effectiveness is assessed. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Company early adopted this guidance in the first quarter of 2018. This guidance did not have a material impact on our consolidated financial statements upon adoption. Currently all of the Company's commodity risk derivatives are not designated as hedges and thus do not qualify for hedge accounting. As new derivative contracts are executed, the Company expects a portion of these commodity risk derivatives to qualify for hedge accounting and its disclosures to be updated accordingly.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". The update allows for a reclassification from accumulated other comprehensive earnings for stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act. The update is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Company early adopted this guidance in the first quarter of 2018. As a result, in the first quarter of 2018, the Company reclassified $5.3 million out of Accumulated Other Comprehensive Loss as an increase to Retained Earnings.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, “Leases”. The FASB is amending the FASB Accounting Standards Codification ("ASC") and creating Topic 842, Leases, which will supersede Topic 840, Leases. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Under the new guidance, lessees will be required to recognize the assets and liabilities arising from leases on the balance sheet. The updated guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. In transition to the new guidance, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company has made progress in its data collection and evaluation of its leasing arrangements, practical expedients and accounting policy elections. The Company continues to evaluate the guidance but is currently unable to reasonably estimate the expected increase in assets and liabilities on its balance sheet from operating leases.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new ASU, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company is currently evaluating the impact of adopting this guidance.

19. Guarantor and Nonguarantor Statements

The Senior Notes are general senior unsecured obligations of Pinnacle Foods Finance LLC, effectively subordinated in right of payment to all existing and future senior secured indebtedness of Pinnacle Foods Finance LLC and guaranteed on a full, unconditional, joint and several basis by the Company and Pinnacle Foods Finance LLC's 100% owned domestic subsidiaries that guarantee other indebtedness of the Pinnacle Foods Finance LLC. The indenture governing the Senior Notes contains customary exceptions under which a guarantee of a guarantor subsidiary will terminate, including (1) the sale, exchange or transfer (by merger or otherwise) of the capital stock or all or substantially all of the assets of such guarantor subsidiary, (2) the release or discharge of the guarantee by such guarantor subsidiary of the Fourth Amended and Restated Credit Agreement or other guarantee that resulted in the creation of the guarantee, (3) the designation of such guarantor subsidiary as an “unrestricted subsidiary” in accordance with the indentures governing the Senior Notes and (4) upon the legal defeasance or covenant defeasance or discharge of the indentures governing the Senior Notes.

The following condensed consolidating financial information presents:

(1) (a) Condensed consolidating balance sheets as of July 1, 2018 and December 31, 2017.

(b) The related condensed consolidating statements of operations and comprehensive earnings for the Company, Pinnacle Foods Finance LLC, all guarantor subsidiaries and the non-guarantor subsidiaries for the following:

i. Three months ended July 1, 2018; and

ii. Three months ended June 25, 2017.

(c) The related condensed consolidating statements of cash flows for the Company, Pinnacle Foods Finance LLC, all guarantor subsidiaries and the non-guarantor subsidiaries for the following:

i. Six months ended ended July 1, 2018; and

ii. Six months ended ended June 25, 2017.

(2) Elimination entries necessary to consolidate the Company, Pinnacle Foods Finance LLC with its guarantor subsidiaries and non-guarantor subsidiaries.

Investments in subsidiaries are accounted for by the parent using the equity method of accounting. The guarantor subsidiaries are presented on a combined basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions and include a reclassification entry of net non-current deferred tax assets to non-current deferred tax liabilities.

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Pinnacle Foods Inc.
Condensed Consolidating Balance Sheet
July 1, 2018

	Pinnacle Foods Inc.	Pinnacle Foods Finance LLC	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations and Reclassifications	Consolidated Total
Current assets:						
Cash and cash equivalents	$—	$—	$74,106	$ 6,325	$—	$80,431
Accounts receivable, net	—	—	255,703	8,655	—	264,358
Intercompany accounts receivable	101,958	—	1,273,461	—	(1,375,419)	—
Inventories, net	—	—	484,820	23,117	—	507,937
Other current assets	—	6,652	8,638	599	—	15,889
Total current assets	101,958	6,652	2,096,728	38,696	(1,375,419)	868,615
Plant assets, net	—	—	724,124	29,990	—	754,114
Investment in subsidiaries	2,368,797	3,246,303	43,116	—	(5,658,216)	—
Intercompany note receivable	—	2,929,846	45,382	9,800	(2,985,028)	—
Tradenames	—	—	2,458,681	4,491	—	2,463,172
Other assets, net	—	23,649	140,388	9,934	—	173,971
Deferred tax assets	—	238,233	—	—	(238,233)	—
Goodwill	—	—	2,115,731	59,559	—	2,175,290
Total assets	$2,470,755	$6,444,683	$7,624,150	$ 152,470	$(10,256,896)	$6,435,162
Current liabilities:						
Short-term borrowings	$—	$—	$1,842	$ —	$—	$1,842
Current portion of long-term obligations	—	40,000	14,124	2	—	54,126
Accounts payable	—	—	321,724	7,311	—	329,035
Intercompany accounts payable	—	1,353,051	—	22,367	(1,375,418)	—
Accrued trade marketing expense	—	—	29,095	3,018	—	32,113
Accrued liabilities	204	17,464	97,000	5,277	—	119,945
Dividends payable	40,066	—	—	—	—	40,066
Total current liabilities	40,270	1,410,515	463,785	37,975	(1,375,418)	577,127
Long-term debt	—	2,665,314	38,565	38	—	2,703,917
Intercompany note payable	—	—	2,919,752	65,277	(2,985,029)	—
Pension and other postretirement benefits	—	—	50,134	—	—	50,134
Other long-term liabilities	—	57	27,781	824	—	28,662
Deferred tax liabilities	—	—	877,830	4,195	(238,233)	643,792
Total liabilities	40,270	4,075,886	4,377,847	108,309	(4,598,680)	4,003,632
Commitments and contingencies (Note 15)						
Shareholders' equity:						
Pinnacle common stock	1,202	—	—	—	—	1,202

Additional paid-in-capital	1,457,492	1,458,694	1,380,615	32,771	(2,872,080)	1,457,492
Retained earnings	1,027,855	934,057	1,898,201	13,889	(2,846,147)	1,027,855
Accumulated other comprehensive (loss)/gain	(23,954)	(23,954)	(32,513)	(3,544)	60,011	(23,954)
Capital stock in treasury, at cost	(32,110)	—	—	—	—	(32,110)
Total Pinnacle Foods Inc. and Subsidiaries stockholders' equity	2,430,485	2,368,797	3,246,303	43,116	(5,658,216)	2,430,485
Non-controlling interest	—	—	—	1,045	—	1,045
Total Equity	2,430,485	2,368,797	3,246,303	44,161	(5,658,216)	2,431,530
Total liabilities and equity	$2,470,755	$6,444,683	$7,624,150	$152,470	$(10,256,896)	$6,435,162

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Pinnacle Foods Inc.
Condensed Consolidating Balance Sheet
December 31, 2017

	Pinnacle Foods Inc.	Pinnacle Foods Finance LLC	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations and Reclassifications	Consolidated Total
Current assets:						
Cash and cash equivalents	$—	$—	$241,772	$ 8,056	$ —	$249,828
Accounts receivable, net	—	—	272,401	9,221	—	281,622
Intercompany accounts receivable	102,335	—	1,001,329	—	(1,103,664)	—
Inventories, net	—	—	469,813	19,993	—	489,806
Other current assets	—	2,649	8,124	288	—	11,061
Total current assets	102,335	2,649	1,993,439	37,558	(1,103,664)	1,032,317
Plant assets, net	—	—	707,670	32,043	—	739,713
Investment in subsidiaries	2,317,445	3,180,932	43,056	—	(5,541,433)	—
Intercompany note receivable	—	2,907,799	45,226	9,800	(2,962,825)	—
Tradenames	—	—	2,458,681	4,693	—	2,463,374
Other assets, net	—	8,802	145,489	10,608	—	164,899
Deferred tax assets	—	233,391	—	—	(233,391)	—
Goodwill	—	—	2,115,731	62,230	—	2,177,961
Total assets	$2,419,780	$6,333,573	$7,509,292	$ 156,932	$ (9,841,313)	$6,578,264
Current liabilities:						
Short-term borrowings	$—	$—	$2,739	$ —	$ —	$2,739
Current portion of long-term obligations	—	22,620	11,311	3	—	33,934
Accounts payable	—	—	315,142	7,920	—	323,062
Intercompany accounts payable	—	1,078,535	—	25,129	(1,103,664)	—
Accrued trade marketing expense	—	—	36,484	2,491	—	38,975
Accrued liabilities	178	19,913	95,010	7,030	—	122,131
Dividends payable	40,470	—	—	—	—	40,470
Total current liabilities	40,648	1,121,068	460,686	42,573	(1,103,664)	561,311
Long-term debt	—	2,894,962	30,594	38	—	2,925,594
Intercompany note payable	—	—	2,896,811	66,014	(2,962,825)	—
Pension and other postretirement benefits	—	—	53,251	—	—	53,251
Other long-term liabilities	—	98	32,971	968	—	34,037
Deferred tax liabilities	—	—	854,047	3,177	(233,391)	623,833
Total liabilities	40,648	4,016,128	4,328,360	112,770	(4,299,880)	4,198,026
Commitments and contingencies (Note 15)						
Shareholders' equity:						
Pinnacle common stock	1,200	—	—	—	—	1,200

Additional paid-in-capital	1,453,054	1,454,253	1,376,175	32,771	(2,863,199)	1,453,054
Retained earnings	987,238	893,441	1,834,555	10,756	(2,738,752)	987,238
Accumulated other comprehensive loss	(30,250)	(30,249)	(29,798)	(471)	60,518	(30,250)
Capital stock in treasury, at cost	(32,110)	—	—	—	—	(32,110)
Total Pinnacle Foods Inc. and Subs stockholders equity	2,379,132	2,317,445	3,180,932	43,056	(5,541,433)	2,379,132
Non-controlling interest	—	—	—	1,106	—	1,106
Total Equity	2,379,132	2,317,445	3,180,932	44,162	(5,541,433)	2,380,238
Total liabilities and shareholders' equity	$2,419,780	$6,333,573	$7,509,292	$ 156,932	$ (9,841,313)	$6,578,264

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(thousands, except share and per share amounts and where noted in millions)

Pinnacle Foods Inc.
Condensed Consolidating Statement of Operations and Comprehensive Earnings
For the three months ended July 1, 2018

	Pinnacle Foods Inc.	Pinnacle Foods Finance LLC	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$—	$ —	$ 727,662	$ 37,445	$ (23,346)	$ 741,761
Cost of products sold	—	—	522,192	31,171	(23,064)	530,299
Gross profit	—	—	205,470	6,274	(282)	211,462
Marketing and selling expenses	—	—	49,539	1,078	—	50,617
Administrative expenses	—	—	33,813	1,555	—	35,368
Research and development expenses	—	—	4,626	160	—	4,786
Intercompany royalties	—	—	(146)	146	—	—
Intercompany management fees	—	—	—	282	(282)	—
Intercompany technical service fees	—	—	—	—	—	—
Other (income) expense, net	—	4,637	12,638	170	—	17,445
Equity in (earnings) loss of investees	(56,317)	(67,623)	(1,948)	—	125,888	—
	(56,317)	(62,986)	98,522	3,391	125,606	108,216
Operating income	56,317	62,986	106,948	2,883	(125,888)	103,246
Non-operating income	—	—	802	—	—	802
Earnings before interest and taxes	56,317	62,986	107,750	2,883	(125,888)	104,048
Intercompany interest (income) expense	—	(18,750)	18,532	218	—	—
Interest expense	—	29,338	844	2	—	30,184
Interest income	—	—	7	9	—	16
Earnings before income taxes	56,317	52,398	88,381	2,672	(125,888)	73,880
(Benefit) provision for income taxes	—	(3,919)	20,758	785	—	17,624
Net earnings	56,317	56,317	67,623	1,887	(125,888)	56,256
Less: Net loss attributable to non-controlling interest	—	—	—	(61)	—	(61)
Net earnings attributable to Pinnacle Foods, Inc. and Subsidiaries common stockholders	$ 56,317	$ 56,317	$ 67,623	$ 1,948	$ (125,888)	$ 56,317
Total comprehensive earnings	59,777	59,777	66,271	434	(126,482)	59,777
Less: Comprehensive loss attributable to non-controlling interest	—	—	—	(61)	—	(61)
Comprehensive earnings attributable to Pinnacle Foods, Inc. and Subsidiaries	$ 59,777	$ 59,777	$ 66,271	$ 495	$ (126,482)	$ 59,838

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Pinnacle Foods Inc.
Condensed Consolidating Statement of Operations and Comprehensive Earnings
For the three months ended June 25, 2017

	Pinnacle Foods Inc.	Pinnacle Foods Finance LLC	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$—	$ —	$ 729,927	$ 37,501	$ (22,820)	$ 744,608
Cost of products sold	—		571,215	31,803	(22,337)	580,681
Gross profit	—	—	158,712	5,698	(483)	163,927
Marketing and selling expenses	—	—	48,485	985	—	49,470
Administrative expenses	—	—	32,319	1,311	—	33,630
Research and development expenses	—	—	4,441	139	—	4,580
Tradename impairment charges	—	—	27,430	—	—	27,430
Intercompany royalties	—	—	(166)	166	—	—
Intercompany management fees				391	(391)	—
Intercompany technical service fees	—	—	—	92	(92)	—
Other expense, net		(164)	6,026	(574)	—	5,288
Equity in (earnings) loss of investees	(18,669)	(23,402)	(2,472)	—	44,543	—
	(18,669)	(23,566)	116,063	2,510	44,060	120,398
Operating income	18,669	23,566	42,649	3,188	(44,543)	43,529
Non-operating income	—	—	491	—	—	491
Earnings before interest and taxes	18,669	23,566	43,140	3,188	(44,543)	44,020
Intercompany interest (income) expense	—	(19,624)	19,416	208	—	—
Interest expense	—	27,772	722	13	—	28,507
Interest income	—	—	10	3	—	13
Earnings before income taxes	18,669	15,418	23,012	2,970	(44,543)	15,526
(Benefit) provision for income taxes	—	(3,251)	(390)	549	—	(3,092)
Net earnings	18,669	18,669	23,402	2,421	(44,543)	18,618
Less: Net (loss) earnings attributable to non-controlling interest	—	—	—	(51)	—	(51)
Net earnings (loss) attributable to Pinnacle Foods, Inc. and Subsidiaries common stockholders	$ 18,669	$ 18,669	$ 23,402	$ 2,472	$ (44,543)	$ 18,669
Total comprehensive earnings (loss)	16,165	16,165	24,101	2,928	(43,245)	16,114
Less: Comprehensive (loss) attributable to non-controlling interest	—	—	—	(51)	—	(51)
Comprehensive earnings (loss) attributable to Pinnacle Foods, Inc. and Subsidiaries	$ 16,165	$ 16,165	$ 24,101	$ 2,979	$ (43,245)	$ 16,165

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Pinnacle Foods Inc.
Condensed Consolidating Statement of Operations and Comprehensive Earnings
For the six months ended July 1, 2018

	Pinnacle Foods Inc.	Pinnacle Foods Finance LLC	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$—	$—	$1,491,854	$ 78,819	$(50,080)	$1,520,593
Cost of products sold	—	—	1,084,945	67,436	(49,680)	1,102,701
Gross profit	—	—	406,909	11,383	(400)	417,892
Marketing and selling expenses	—	—	98,106	1,738	—	99,844
Administrative expenses	—	—	66,852	3,190	—	70,042
Research and development expenses	—	—	9,207	343	—	9,550
Intercompany royalties	—	—	(313)	313	—	—
Intercompany management fees	—	—	—	400	(400)	—
Intercompany technical service fees	—	—	—	—	—	—
Other (income) expense, net	—	5,162	14,794	354	—	20,310
Equity in (earnings) loss of investees	(113,231)	(141,590)	(3,431)	—	258,252	—
	(113,231)	(136,428)	185,215	6,338	257,852	199,746
Operating income	113,231	136,428	221,694	5,045	(258,252)	218,146
Non-operating income	—	—	1,603	—	—	1,603
Earnings before interest and taxes	113,231	136,428	223,297	5,045	(258,252)	219,749
Intercompany interest (income) expense	—	(37,502)	37,065	437	—	—
Interest expense	—	70,473	1,586	19	—	72,078
Interest income	—	—	207	21	—	228
Earnings before income taxes	113,231	103,457	184,853	4,610	(258,252)	147,899
(Benefit) provision for income taxes	—	(9,774)	43,263	1,240	—	34,729
Net earnings	113,231	113,231	141,590	3,370	(258,252)	113,170
Less: Net loss attributable to non-controlling interest	—	—	—	(61)	—	(61)
Net earnings attributable to Pinnacle Foods, Inc. and Subsidiaries common stockholders	$113,231	$ 113,231	$141,590	$ 3,431	$(258,252)	$113,231
Total comprehensive earnings	124,795	124,795	138,814	298	(263,907)	124,795
Less: Comprehensive loss attributable to non-controlling interest	—	—	—	(61)	—	(61)
Comprehensive earnings attributable to Pinnacle Foods, Inc. and Subsidiaries	$124,795	$ 124,795	$138,814	$ 359	$(263,907)	$124,856

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Pinnacle Foods Inc.
Condensed Consolidating Statement of Operations and Comprehensive Earnings
For the six months ended June 25, 2017

	Pinnacle Foods Inc.	Pinnacle Foods Finance LLC	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$—	$ —	$ 1,484,514	$ 74,195	$ (48,027)	$ 1,510,682
Cost of products sold	—	—	1,117,427	65,659	(46,904)	1,136,182
Gross profit	—	—	367,087	8,536	(1,123)	374,500
Marketing and selling expenses	—	—	103,188	1,876	—	105,064
Administrative expenses	—	—	66,704	2,937	—	69,641
Research and development expenses	—	—	8,278	323	—	8,601
Tradename impairment charges	—	—	27,430	—	—	27,430
Intercompany royalties			(354)	354	—	—
Intercompany management fees	—	—	—	782	(782)	—
Intercompany technical service fees	—	—	—	341	(341)	—
Other expense, net	—	(397)	10,046	(131)	—	9,518
Equity in (earnings) loss of investees	(41,595)	(81,579)	(1,120)	—	124,294	—
	(41,595)	(81,976)	214,172	6,482	123,171	220,254
Operating income	41,595	81,976	152,915	2,054	(124,294)	154,246
Non-operating income	—	—	982	—	—	982
Earnings before interest and taxes	41,595	81,976	153,897	2,054	(124,294)	155,228
Intercompany interest (income) expense	—	(41,929)	41,503	426	—	—
Interest expense	—	107,942	1,273	23	—	109,238
Interest income	—	—	20	8	—	28
Earnings before income taxes	41,595	15,963	111,141	1,613	(124,294)	46,018
(Benefit) provision for income taxes	—	(25,632)	29,562	321	—	4,251
Net earnings	41,595	41,595	81,579	1,292	(124,294)	41,767
Less: Net (loss) earnings attributable to non-controlling interest	—	—	—	172	—	172
Net earnings (loss) attributable to Pinnacle Foods, Inc. and Subsidiaries common stockholders	$41,595	$ 41,595	$81,579	$ 1,120	$ (124,294)	$ 41,595
Total comprehensive earnings (loss)	54,198	54,198	83,782	3,174	(140,982)	54,370
Less: Comprehensive (loss) attributable to non-controlling interest	—	—	—	172	—	172
Comprehensive earnings (loss) attributable to Pinnacle Foods, Inc. and Subsidiaries	$54,198	$ 54,198	$83,782	$ 3,002	$ (140,982)	$ 54,198

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PINNACLE FOODS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(thousands, except share and per share amounts and where noted in millions)

Pinnacle Foods Inc.
Condensed Consolidating Statement of Cash Flows
For the six months ended July 1, 2018

	Pinnacle Foods Inc.	Pinnacle Foods Finance LLC	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations and Reclassifications	Consolidated Total
Cash flows from operating activities						
Net cash (used in) provided by operating activities	$ —	$ (8,245)	$ 216,288	$ 6,707	$ —	$ 214,750
Cash flows from investing activities						
Intercompany accounts receivable/payable	—	249,338	7,038	—	(256,376)	—
Investment in Subsidiary	83,697	73,442	—	—	(157,139)	—
Capital expenditures	—	—	(58,716)	(1,617)	—	(60,333)
Other investing	—	—	—	608	—	608
Net cash provided by (used in) investing activities	83,697	322,780	(51,678)	(1,009)	(413,515)	(59,725)
Cash flows from financing activities						
Net proceeds from issuance of common stock	2,046	—	—	—	—	2,046
Taxes paid related to net share settlement of equity awards	(7,572)	—	—	—	—	(7,572)
Dividends paid	(78,171)	—	—	—	—	(78,171)
Proceeds from bank term loans	—	2,289,380	—	—	—	2,289,380
Repayments of long-term obligations	—	(2,613,649)	(980)	—	—	(2,614,629)
Repayments of short-term borrowing	—	—	(2,391)	—	—	(2,391)
Borrowings under revolving credit facility	—	100,000	—	—	—	100,000
Intercompany accounts receivable/payable	—	—	(249,338)	(7,038)	256,376	—
Return of capital	—	(83,697)	(73,442)	—	157,139	—
Repayment of capital lease obligations	—	—	(6,125)	(63)	—	(6,188)
Debt acquisition costs	—	(6,569)	—	—	—	(6,569)
Net cash (used in) provided by financing activities	(83,697)	(314,535)	(332,276)	(7,101)	413,515	(324,094)
Effect of exchange rate changes on cash				(328)		(328)
Net change in cash and cash equivalents	—	—	(167,666)	(1,731)	—	(169,397)
Cash and cash equivalents - beginning of period	—	—	241,772	8,056	—	249,828
Cash and cash equivalents - end of period	$ —	$ —	$ 74,106	$ 6,325	$ —	$ 80,431

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PINNACLE FOODS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
(thousands, except share and per share amounts and where noted in millions)

Pinnacle Foods Inc.
Condensed Consolidating Statement of Cash Flows
For the six months ended June 25, 2017

	Pinnacle Foods Inc.	Pinnacle Foods Finance LLC	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations and Reclassifications	Consolidated Total
Cash flows from operating activities						
Net cash provided by (used in) operating activities	$ —	$ (18,025)	$ 138,670	$ (297)	$ —	$ 120,348
Cash flows from investing activities						
Intercompany accounts receivable/payable	—	248,150	2,571	—	(250,721)	—
Investment in subsidiaries	67,287	58,504	—	—	(125,791)	—
Capital expenditures	—	—	(48,271)	(1,084)	—	(49,355)
Sale of plant assets	—	—	517	1,430	—	1,947
Net cash (used in) provided by investing activities	67,287	306,654	(45,183)	346	(376,512)	(47,408)
Cash flows from financing activities						
Net proceeds from the issuance of common stock	9,051	—	—	—	—	9,051
Taxes paid related to net share settlement of equity awards	(8,926)	—	—	—	—	(8,926)
Dividends paid	(67,412)	—	—	—	—	(67,412)
Proceeds from bank term loan	—	2,262,000	—	—	—	2,262,000
Repayments of long-term obligations	—	(2,470,405)	(1,915)	—	—	(2,472,320)
Proceeds from short-term borrowing	—	—	1,634	—	—	1,634
Repayments of short-term borrowing	—	—	(2,240)	—	—	(2,240)
Intercompany accounts receivable/payable	—	—	(248,150)	(2,571)	250,721	—
Return of capital	—	(67,287)	(58,504)	—	125,791	—
Repayment of capital lease obligations	—	—	(4,180)	(36)	—	(4,216)
Debt acquisition costs	—	(12,937)	—	—	—	(12,937)
Net cash (used in) provided by financing activities	(67,287)	(288,629)	(313,355)	(2,607)	376,512	(295,366)
Effect of exchange rate changes on cash	—	—	—	219	—	219
Net change in cash and cash equivalents	—	—	(219,868)	(2,339)	—	(222,207)
Cash and cash equivalents - beginning of period	—	—	341,238	11,838	—	353,076
Cash and cash equivalents - end of period	$ —	$ —	$ 121,370	$ 9,499	$ —	$ 130,869

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains “forward-looking statements.” These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements, other than our financial statements, including the Notes thereto, and statements of historical facts included elsewhere in this Report on Form 10-Q, including statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, financing needs, plans or intentions relating to acquisitions, business trends and other information referred to under “Management's Discussion and Analysis of Financial Condition and Results of Operations” are forward-looking statements. When used in this report, the words “estimates,” “expects,” “contemplates”, “anticipates,” “projects,” “plans,” “intends,” “believes,” “fore “should” and variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not historical facts, and are based upon our current expectations, beliefs and projections, and various assumptions, many of which, by their nature, are inherently uncertain and beyond our control. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management's expectations, beliefs and projections will result or be achieved and actual results may vary materially from what is expressed in or indicated by the forward-looking statements.

There are a number of risks, uncertainties and other important factors that could cause our actual results to differ materially from the forward-looking statements contained in this report. Such risks, uncertainties and other important factors include, among others, the risks, uncertainties and factors set forth in our Form 10-K filed with the SEC on March 1, 2018 under the section entitled “Risk Factors,” the section entitled “Management's Discussion and Analysis of Financial Condition and Results of Operations” in this report and the following risks, uncertainties and factors:

- competition;
- our ability to predict, identify, interpret and respond to changes in consumer preferences;
- the loss of any of our major customers;
- our reliance on a single source provider for the manufacturing, co-packing and distribution of many of our products;
- fluctuations in the price and supply of food ingredients, packaging materials and freight;
- volatility in commodity prices and our failure to mitigate the risks related to commodity price fluctuation and foreign exchange risk through the use of derivative instruments;
- the impact of significant acquisitions, dispositions and other similar transactions;
- our failure to realize anticipated cost savings, revenue enhancements or other synergies;
- litigation or claims regarding our intellectual property rights or termination of our material licenses;
- our ability to drive revenue growth in our key product categories or to add products that are in faster growing and more profitable categories;
- potential product liability claims;
- seasonality;
- the funding of our defined benefit pension plan;
- changes in our collective bargaining agreements or shifts in union policy;
- changes in the cost of compliance with laws and regulations, including environmental, worker health and workplace safety laws and regulations;
- our failure to comply with U.S Food & Drug Administration, U.S. Department of Agriculture or Federal Trade Commission regulations and the impact of governmental budget cuts;
- disruptions in our information technology systems;
- future impairments of our goodwill and intangible assets;
- difficulty in the hiring or the retention of key management personnel; and
- changes in tax statutes, tax rates, or case laws which impact tax positions we have taken.

You should evaluate all forward-looking statements made in this report in the context of these risks and uncertainties. We caution you that the risks, uncertainties and other factors referenced above may not contain all of the risks, uncertainties and other factors that are important to you. In addition, we cannot assure you that we will realize the results, benefits or developments that we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our business in the way expected. All forward-looking statements in this report apply only as of the date made and are expressly qualified in their entirety by the cautionary statements included in this report. We undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances.

ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in millions, except where noted)

You should read the following discussion of our results of operations and financial condition together with the audited consolidated financial statements appearing in our annual report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 1, 2018 and the unaudited Consolidated Financial Statements and the notes thereto included in this quarterly report. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the “Risk Factors” section of our Form 10-K, and the section entitled “Special Note Regarding Forward-Looking Statements” in this report. Actual results may differ materially from those contained in any forward-looking statements.

Overview

The Company is a leading manufacturer, marketer and distributor of high quality, branded food products in North America. The Company’s business is organized into the following four reportable segments: The Frozen segment, The Grocery segment, The Boulder segment and The Specialty segment.

The Frozen segment is comprised of the retail businesses of the Company’s frozen brands, including vegetables (Birds Eye), complete bagged meals (Birds Eye Voila! and Birds Eye Signature Skillets), full-calorie single-serve frozen dinners and entrées (Hungry-Man), prepared seafood (Van de Kamp's and Mrs. Paul's), frozen and refrigerated bagels (Lender's) and pizza for one (Celeste). The Frozen segment also includes all of the Company’s business in Canada, including those of the Garden Protein International and Boulder Brands acquisitions.

The Grocery segment is comprised of the retail businesses of the Company’s grocery brands, including cake/brownie mixes and frostings (Duncan Hines), shelf-stable pickles (Vlasic), salad dressings (Wish-Bone, Western and Bernstein’s), table syrups (Log Cabin and Mrs. Butterworth's), refrigerated and shelf-stable spreads (Smart Balance), canned meat (Armour, Nalley and Brooks), pie and pastry fillings (Duncan Hines Comstock and Wilderness) and barbecue sauces (Open Pit).

The Boulder segment is comprised of the retail businesses of the Company’s health and wellness lifestyle brands, including gluten- free products (Udi's and Glutino), natural frozen meal offerings (EVOL), plant-based refrigerated and shelf-stable spreads (Earth Balance) and plant-based protein frozen products (gardein).

The Specialty segment includes the Company’s snack products (Tim's Cascade and Snyder of Berlin) and all of its U.S. foodservice and private label businesses, including those of the Garden Protein International and Boulder Brands acquisitions.

Segment performance is evaluated by the Company’s Chief Operating Decision Maker and is based on earnings before interest and taxes. Transfers between segments and geographic areas are recorded at cost plus markup or at market. Identifiable assets are those assets, including goodwill, which are identified with the operations in each segment or geographic region. Corporate assets consist of prepaid and deferred tax assets. Unallocated corporate expenses consist of corporate overhead such as executive management and finance and legal functions.

Business Drivers and Measures

In operating our business and monitoring its performance, we pay attention to trends in the food manufacturing industry and a number of performance measures and operational factors. The industry experiences volatility in overall commodity prices from time to time, which has historically been managed by increasing retail prices. However, over the past several years, a difficult retail landscape driven by a highly competitive environment has hampered the ability of the industry to pass along higher input costs.

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Industry Trends

Growth in our industry is driven primarily by population growth, changes in product selling prices and changes in consumption between out-of-home and in-home eating. Consumers are looking for value alternatives, which have caused an increase in the percentage of products sold on promotion and a shift from traditional retail grocery to mass merchandisers, club stores, dollar store channels and e-commerce outlets. We believe we are well positioned in grocery and non-traditional channels, maintaining strong customer relationships across key retailers in each segment. In order to maintain and grow our business, we must successfully react to, and offer products that respond to, evolving consumer needs, such as changing health trends, the focus on convenience and the growth of smaller households. Incremental growth in the industry is principally driven by product and packaging innovation.

Revenue Factors

Our net sales are driven principally by the following factors:

- Gross sales, which change as a function of changes in volume and list price; and
- the costs that we deduct from gross sales to arrive at net sales, which consist of:
  - Cash discounts, returns and other allowances.
  - Trade marketing expenses, which include the cost of temporary price reductions (“on sale” prices), promotional displays and advertising space in store circulars.
  - New product introductory expenses, which are the costs of having certain retailers stock a new product, including amounts retailers charge for updating their warehousing systems, allocating shelf space and in-store systems set-up, among other things.
  - Consumer coupon redemption expenses, which are costs from the redemption of coupons we circulate as part of our marketing efforts.

Cost Factors

- Costs recorded in Cost of products sold in the consolidated statement of operations include:
  - Raw materials, such as vegetables and fruits, proteins, grains and oils, sugars, seafood and other agricultural products, among others, are available from numerous independent suppliers but are subject to price fluctuations due to a number of factors, including changes in crop size, federal and state agricultural programs, export demand, weather conditions and insects, among others.
  - Packaging costs. Our broad array of products entails significant costs for packaging and is subject to fluctuations in the price of steel, aluminum, glass jars, plastic bottles, corrugated fiberboard, and various poly-films.
  - Conversion costs, which include all costs necessary to convert raw materials into finished product. Key components of this cost include direct labor, and plant overhead such as salaries, benefits, utilities and depreciation.
  - Freight and distribution. We use a combination of common carriers and inter-modal rail to transport our products from our manufacturing facilities to distribution centers and to deliver products to our customers from both those centers and directly from our manufacturing plants. Our freight and distribution costs are influenced by fuel costs as well as capacity within the industry.

- Costs recorded in marketing and selling expenses in the consolidated statement of operations include:
  - Advertising and other marketing expenses. These expenses represent advertising and other consumer and trade-oriented marketing programs.
  - Brokerage commissions and other overhead expenses.

- Costs recorded in administrative and research and development expenses in the consolidated statement of operations include:
  - Administrative expenses. These expenses consist of personnel and facility charges and also include third party professional and other services.
  -

Research and Development. These expenses consist of personnel and facility charges and include expenditures on new products and the improvement and maintenance of existing products and processes.

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Working Capital

Our working capital is primarily driven by accounts receivable, accounts payable and inventories, which fluctuate throughout the year due to seasonality in both sales and production. See "Seasonality" below. We will continue to focus on reducing our working capital requirements while simultaneously maintaining our customer service levels and fulfilling our production requirements. We have historically relied on internally generated cash flows and temporary borrowings under our revolving credit facility to satisfy our working capital requirements.

Other Factors

Other factors that have influenced our results of operations and may do so in the future include:

- Interest Expense. As a result of our previous acquisitions and the recent Boulder Brands acquisition, we have significant indebtedness. However, our 2017 Refinancing and our 2018 Refinancings as well as our principal pay-down have significantly reduced our expected future interest expense. See Note 12 to the Consolidated Financial Statements for further details. Although we expect to continue to reduce our leverage over time, we expect interest expense to continue to be a significant component of our expenses for the foreseeable future.

Seasonality

Our sales and cash flows are affected by seasonal cyclicality. Sales of frozen foods, including frozen vegetables and frozen complete bagged meals, tend to be marginally higher during the winter months. Seafood sales peak during Lent, in advance of the Easter holiday. Sales of pickles, relishes, barbecue sauces, potato chips and salad dressings tend to be higher in the spring and summer months, and demand for Duncan Hines products, Birds Eye vegetables and our pie and pastry fruit fillings tend to be higher around the Easter, Thanksgiving, and Christmas holidays. Since many of the raw materials we process under the Birds Eye, Vlasic, Duncan Hines Comstock and Wilderness brands are agricultural crops, production of these products is predominantly seasonal, occurring during and immediately following the purchase of such crops. We also increase our Duncan Hines inventories in advance of the peak fall selling season. As a result, our inventory levels tend to be higher during August, September, and October, and thus we require more working capital during these months.

Inflation

To the extent possible, we strive to offset the effects of inflation with cost reduction and productivity programs. We spend approximately $2.3 billion annually on Cost of products sold, therefore each 1% change in our weighted average cost of inputs would increase our Cost of products sold by approximately $23 million. If we experience significant inflation, price increases may be necessary in order to preserve our margins and returns. However, over the past several years, a difficult retail landscape driven by a highly competitive environment has hampered the ability of the industry to pass along higher input costs. Severe increases in inflation could have an adverse impact on our business, financial condition and results of operations.

Results of Operations:

Consolidated Statements of Operations

The following tables set forth our statement of operations data expressed in dollars and as a percentage of net sales.

	Three months ended				Six months ended			
	July 1, 2018		June 25, 2017		July 1, 2018		June 25, 2017	
Net sales	$741.8	100.0%	$744.6	100.0%	$1,520.6	100.0%	$1,510.7	100.0%
Cost of products sold	530.3	71.5 %	580.7	78.0 %	1,102.7	72.5 %	1,136.2	75.2 %
Gross profit	211.5	28.5 %	163.9	22.0 %	417.9	27.5 %	374.5	24.8 %
Marketing and selling expenses	$50.6	6.8 %	$49.5	6.6 %	$99.8	6.6 %	$105.1	7.0 %
Administrative expenses	35.4	4.8 %	33.6	4.5 %	70.0	4.6 %	69.6	4.6 %
Research and development expenses	4.8	0.6 %	4.6	0.6 %	9.6	0.6 %	8.6	0.6 %
Tradename impairment charges	—	— %	27.4	3.7 %	—	— %	27.4	1.8 %
Other expense, net	17.4	2.3 %	5.3	0.7 %	20.3	1.3 %	9.5	0.6 %
	$108.2	14.6 %	$120.4	16.2 %	$199.7	13.1 %	$220.3	14.6 %
Non-operating income	0.8	0.1 %	0.5	0.1 %	1.6	0.1 %	1.0	0.1 %
Earnings before interest and taxes	$104.0	14.0 %	$44.0	5.9 %	$219.7	14.4 %	$155.2	10.3 %

	Three months ended		Six months ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Net sales				
Frozen	$308.5	$295.9	$653.4	$616.8
Grocery	256.6	276.1	517.6	535.4
Boulder	98.9	94.7	196.7	191.9
Specialty	77.7	78.0	152.9	166.5
Total	$741.8	$744.6	$1,520.6	$1,510.7
Earnings before interest and taxes				
Frozen	$49.7	$(12.3)	$103.5	$38.7
Grocery	52.1	61.9	101.9	113.7
Boulder	16.0	12.2	27.9	18.9
Specialty	9.5	(10.6)	17.7	(1.8)
Unallocated corporate expense	(23.3)	(7.2)	(31.2)	(14.3)
Total	$104.0	$44.0	$219.7	$155.2
Depreciation and amortization				
Frozen	$11.8	$38.6	$23.4	$49.2
Grocery	7.8	7.8	15.6	15.9
Boulder	4.6	3.7	8.9	7.4
Specialty	3.2	3.7	6.3	8.4
Total	$27.4	$53.8	$54.3	$80.9

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Three months ended July 1, 2018 compared to the three months ended June 25, 2017

Net sales

Net sales for the three months ended July 1, 2018 decreased $2.8 million, or 0.4%, versus year-ago to $741.8 million, driven by unfavorable volume/mix of 2.0%, which included comparison against a later Easter in 2017, and a 0.9% decline from the Exit (as defined in Note 11 to the consolidated financial statements). These decreases were partially offset by higher net price realization of 1.4%, a 1.0% benefit from lapping the impact of the Recall (as defined in Note 15 to the consolidated financial statements) and a 0.1% increase from foreign currency. In an industry generally marked by low growth and a challenging environment to fully pass on price increases, we continue to perform in line or above the performance of our composite categories, with market share that was even with the year-ago period.

Frozen Segment:

Net sales in the three months ended July 1, 2018 increased $12.6 million, or 4.3%, versus year-ago to $308.5 million, reflecting favorable volume/mix of 2.2%, which included the unfavorable impact of Easter timing, a 1.5% benefit from lapping the impact of the Recall, higher net price realization of 1.2%, and a 0.1% increase from foreign currency. These increases were partially offset by a 0.7% decline from the Exit. The favorable volume/mix is primarily attributable to continued growth of our Birds Eye frozen vegetables business, specifically with the Veggie Made innovation platform that launched in 2017 and now includes Veggie Made pasta, Veggie Made fries and tots, Veggie Made mashed cauliflower and sweet potato and Veggie Made riced cauliflower. Also benefiting the quarter was higher sales of our seafood products. Partially offsetting these increases were lower net sales in the highly competitive frozen meals segment.

Grocery Segment:

Net sales in the three months ended July 1, 2018 were $256.6 million, a decline of $19.4 million, or 7.0% versus year-ago, driven by lower volume/mix of 7.4%, which included the unfavorable impact of Easter timing. The decrease was partially offset by higher net price realization of 0.4%. The unfavorable impact of the lower volume/mix was driven by lower net sales of our Duncan Hines products which was impacted by both the phasing of Easter as well as the lapping of a very strong year-ago period. Also impacting the quarter were lower sales of Wish-Bone and Smart Balance. Partially offsetting the decreases were higher net sales of our Vlasic pickles and to a lesser extent, Armour canned meats.

Boulder Segment:

Net sales in the three months ended July 1, 2018 were $98.9 million, an increase of $4.2 million, or 4.5% versus year-ago, reflecting a 3.7% increase from volume/mix and favorable net price realization of 0.8%. During the period we realized double digit growth from our gardein and Earth Balance products, partially offset by lower net sales of our gluten-free products.

Specialty Segment:

Net sales in the three months ended July 1, 2018 were $77.7 million, a decline of $0.3 million, or 0.3% versus year-ago, reflecting a 6.3% decline from the Exit and lower net price realization of 1.3%, partially offset by a 3.6% benefit from lapping the impact of the Recall and higher volume/mix of 3.7%.

Gross profit

Gross profit for the three months ended July 1, 2018 was $211.5 million, or 28.5% of net sales, compared to $163.9 million, or 22.0% of net sales, in the comparable prior year period. Excluding items affecting comparability, Adjusted Gross Profit increased 4.6% to $212.6 million and Adjusted Gross Profit as a Percentage of Sales increased approximately 140 basis points to 28.7%. See Adjusted Gross Profit reconciliation later in the document for further details.

The following table outlines the factors resulting in the year-on-year change in gross profit and gross margin percentage in the three months ended July 1, 2018.

	$ (in millions)	% of net sales
Productivity	$ 25.3	3.4 %
Higher net price realization, including new product introductory fees	9.4	1.0
Lower acquisition integration and other restructuring charges	3.3	0.5
Lower mark to market losses on financial instruments	1.9	0.2
Inflation	(25.6)	(3.5)
Unfavorable product mix	(12.6)	(1.6)
Aunt Jemima retail and foodservice frozen breakfast products exit	36.5	5.2
Aunt Jemima retail and foodservice frozen breakfast products recall	8.6	0.9
Lower strategic manufacturing investments	4.3	0.6
Higher depreciation expense	(1.0)	(0.1)
Other	(0.4)	(0.1)
Subtotal	$ 49.7	6.5 %
Lower sales volume	(2.2)	
Total	$ 47.5	

Marketing and selling expenses

Marketing and selling expenses increased 2.3% to $50.6 million, or 6.8% of net sales, for the three months ended July 1, 2018, compared to $49.5 million, or 6.6% of net sales for the prior year period. The increase was primarily driven by higher consumer marketing offset partially by lower compensation expense.

Administrative expenses

Administrative expenses were $35.4 million, or 4.8% of net sales, for the three months ended July 1, 2018, compared to $33.6 million, or 4.5% of net sales, for the comparable prior year period. The increase was primarily driven by higher professional fees as well as higher personnel costs.

Research and development expenses

Research and development expenses were $4.8 million, or 0.6% of net sales, for the three months ended July 1, 2018 compared to $4.6 million, or 0.6% of net sales, for the prior year period. The increase was primarily driven by higher compensation expenses.

Other income and expense

	Three months ended	
	July 1, 2018	June 25, 2017
Other expense, net consists of:		
Amortization of intangibles/other assets	$2.3	$ 6.3
Foreign exchange losses/(gains)	0.4	(0.2)
Redemption premium on the early extinguishment of debt	4.3	—
Merger Agreement costs (Note 1)	10.8	—
Royalty income and other	(0.4)	(0.9)
Total other expense, net	$17.4	$ 5.3

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Amortization of intangibles/other assets. The lower amortization expense was primarily driven by accelerated amortization being recognized in the second quarter of 2017 related to the exit of Aunt Jemima and other frozen breakfast products.

Foreign exchange losses/(gains). Represents foreign exchange (gains)/losses from intra-entity loans resulting from the November 2014 Garden Protein acquisition that are anticipated to be settled in the foreseeable future.

Redemption premium on the early extinguishment of debt. On May 30, 2018, the Company redeemed all $350.0 million of its outstanding 4.875% Senior Notes at a redemption price of 101.2% of the aggregate principle amount resulting in a redemption premium paid of $4.3 million (the "Redemption Premium").

Earnings before interest and taxes

Earnings before interest and taxes increased $60.0 million, or 136.4%, to $104.0 million, primarily resulting from favorable impact of items affecting comparability, which totaled $16.7 million and $70.2 million in the three months ended July 1, 2018 and June 25, 2017, respectively. The variance in items affecting comparability primarily resulted from lower charges associated with the Exit, partially offset by the charges related to the Merger Agreement and the Redemption Premium. Excluding items affecting comparability, Adjusted Earnings Before Interest and Taxes increased $6.5 million, or 5.7%, to $120.7 million.

Frozen Segment:
Earnings before interest and taxes for the three months ended July 1, 2018 were $49.7 million, an increase of $62.0 million, as compared to losses before interest and taxes of $12.3 million in the year-ago period, largely reflecting the favorable impact of items affecting comparability, primarily lower charges related to the Exit, as well as comparison against the strategic manufacturing investments made in 2017. In addition, higher net sales and productivity contributed to the increase. These benefits were partially offset by input cost inflation, primarily from higher logistics costs. Excluding items affecting comparability, Adjusted Earnings Before Interest and Taxes increased $12.2 million, or 32.2%, to $50.3 million as compared to $38.1 million in the year-ago period.

Grocery Segment:
Earnings before interest and taxes for the three months ended July 1, 2018 were $52.1 million, a decrease of 15.7%, or $9.7 million, as compared to $61.9 million in the year-ago period, reflecting negative product mix and lower sales, input cost inflation, primarily higher logistics costs, partially offset by productivity. Excluding items affecting comparability, Adjusted Earnings Before Interest and Taxes decreased $10.5 million, or 16.7%, to $52.5 million as compared to $63.1 million in the year-ago period.

Boulder Segment:
Earnings before interest and taxes for the three months ended July 1, 2018 were $16.0 million, an increase of 30.8%, or $3.8 million, as compared to $12.2 million in the year-ago period, reflecting higher sales and the favorable impact of items affecting comparability, primarily lower acquisition integration charges, as well as productivity. These benefits were partially offset by input cost inflation. Excluding items affecting comparability, Adjusted Earnings Before Interest and Taxes increased $0.7 million, or 4.5%, to $16.5 million as compared to $15.8 million in the year-ago period.

Specialty Segment:
Earnings before interest and taxes for the three months ended July 1, 2018 were $9.5 million, an increase of $20.1 million, compared to losses before interest and taxes of $10.6 million during the year-ago period, largely reflecting the favorable impact of items affecting comparability, primarily lower charges related to the Exit. Excluding items affecting comparability, Adjusted Earnings Before Interest and Taxes increased $5.1 million, or 115.5%, to $9.6 million as compared to $4.4 million in the year-ago period.

Unallocated corporate expense:
Unallocated corporate expense for the three months ended July 1, 2018 was $23.3 million, an increase of 224.4%, or $16.1 million, as compared to $7.2 million in the year-ago period, largely reflecting the unfavorable impact of items affecting comparability, primarily driven by charges related to the Merger Agreement and the Redemption Premium. Excluding items affecting comparability, Adjusted unallocated corporate expense increased $1.0 million, or 14.4%, to $8.2 million as compared to $7.2 million in the year-ago period.

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Interest expense, net

Net interest expense increased 5.9%, or $1.7 million, to $30.2 million in the three months ended July 1, 2018, compared to $28.5 million in the three months ended June 25, 2017. Included in net interest in the second quarter of 2018 is a $1.8 million non-cash charge for deferred financing costs related to the Second Quarter 2018 Refinancing. Excluding this charge, Adjusted net interest expense in the second quarter remained flat compared to the year-ago period, despite a rising interest rate environment.

We utilize interest rate swap agreements to reduce the potential exposure to interest rate movements and to achieve a desired proportion of variable versus fixed-rate debt. Any gains or losses realized on the interest rate swap agreements, excluding the AOCL portion, are recorded as an adjustment to interest expense. Included in net interest expense was a $1.2 million gain in the second quarter of 2018 and a $0.1 million gain in the second quarter of 2017.

Provision for income taxes

The effective tax rate was 23.9% for the three months ended July 1, 2018 compared to (19.9)% for the three months ended June 25, 2017.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into law. Among other provisions, the Act reduced the federal statutory corporate income tax rate from 35.0% to 21.0%. The Company continues to evaluate the impact of certain foreign and domestic income provisions of the Act and for the three months ended July 1, 2018 has determined those provisions will not have a material effect on its fiscal year 2018 financial statements. Once the Company finalizes its analysis of the Act it will be able to conclude on any further adjustments to be recorded in these provisional amounts. Any such adjustment is reported as a component of income taxes in the reporting period in which such adjustments are determined, which will be no later than the fourth quarter of 2018, or as a component of our 2018 annualized effective income tax rate, depending on the nature of the adjustment.

The rate for the three months ended July 1, 2018 reflects a decrease in the federal rate to 21.0% as a result of the Act. The rate also includes a benefit of 1.1% from share based payment transactions being recorded as an item of continuing operations in accordance with ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting” effective for our 2017 fiscal year, a benefit of 1.6% from an adjustment to our income tax liability, a charge of 0.6% from changes in state tax law and a charge of 1.0% from non-deductible transaction costs in connection with the Merger Agreement.

The rate for the three months ended June 25, 2017 reflects the former 35.0% federal rate offset by a benefit of 40.6% from share based payment transactions and a benefit of 15.5% from changes in state tax law

The Company is a loss corporation as defined by Section 382 of the Code. Section 382 places an annual limitation on our ability to use our NOL carryovers and other attributes to reduce future taxable income. As of July 1, 2018, we have federal NOL carryovers of $408.3 million subject to an annual limitation of $17.1 million. As a result, $237.2 million of the carryovers exceed the estimated available Section 382 limitation. The Company has reduced its deferred tax assets for this limitation.

We have significant tax-deductible intangible asset amortization and federal and state NOLs, which resulted in federal and state cash tax savings in 2017 and prior years. We expect continued amortization and utilization of our NOLs will generate additional cash tax savings in 2018 and thereafter.

Six months ended July 1, 2018 compared to the six months ended June 25, 2017

Net sales

Net sales for the six months ended July 1, 2018 increased $9.9 million, or 0.7%, versus a year-ago to $1,520.6 million, reflecting higher net price realization of 1.1%, a 0.8% increase from volume/mix, a 0.5% benefit from lapping the impact of the Recall, and a 0.1% increase from foreign currency. These increases were offset by a 1.8% decrease from the impact of the Exit. In an industry generally marked by low growth and a challenging environment to fully pass on price increases, we continue to perform above the performance of our composite categories, with market share growth in the six months of 0.2 percentage points.

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Frozen Segment:
Net sales in the six months ended July 1, 2018 increased $36.5 million, or 5.9%, versus year-ago to $653.4 million, reflecting a 4.9% increase from volume/mix, higher net price realization of 1.8%, a 0.7% benefit from lapping the impact of the Recall and a 0.2% increase from foreign currency. These increases were partially offset by a 1.7% decline resulting from the Exit. During the period we realized continued strong sales from the Birds Eye franchise, specifically the Veggie Made innovation, and our seafood businesses, which was partially offset by the impacts of the Recall and Exit as well as lower net sales of Celeste frozen pizza and Hungry-Man entrées.
Grocery Segment:
Net sales in the six months ended July 1, 2018 were $517.6 million, a decrease of $17.8 million, or 3.3%, versus year-ago, reflecting a 3.6% decrease from volume/mix, partially offset by higher net price realization of 0.3%. The decline in the period was driven by lower sales of Duncan Hines baking products and Wish-Bone dressings due to a highly competitive environment. Partially offsetting these decreases were consumption gains for Vlasic pickles and Armour canned meat.
Boulder Segment:
Net sales in the six months ended July 1, 2018 increased $4.7 million, or 2.5%, versus year-ago to $196.7 million reflecting a 3.4% increase from volume/mix, partially offset by a 0.9% decrease due to lower net price realization. During the period we realized double digit growth from our gardein and Earth Balance products, partially offset by lower net sales of our gluten-free products.
Specialty Segment:
Net sales in the six months ended July 1, 2018 were $152.9 million, a decline of $13.6 million, or 8.1% versus year-ago, reflecting a 9.9% decline resulting from the Exit and a 0.5% decrease due to lower net price realization, partially offset by a 1.7% benefit from lapping the impact of the Recall and an increase of 0.6% in volume/mix.
Gross profit
Gross profit for the six months ended July 1, 2018 was $417.9 million, or 27.5% of net sales, compared to $374.5 million, or 24.8% of net sales, in the comparable prior year period. Excluding items affecting comparability, Adjusted Gross Profit increased 0.6% to $423.8 million and Adjusted Gross Profit as a Percentage of Sales remained flat versus a year-ago. See Adjusted Gross Profit reconciliation later in the document for further details.
The following table outlines the factors resulting in the year-on-year change in gross profit and gross margin percentage in the six months ended July 1, 2018

	$ (in millions)	% of net sales
Productivity	$ 46.3	3.0 %
Higher net price realization, including new product introductory fees	14.2	0.7
Lower acquisition integration and other restructuring charges	4.9	0.3
Lower mark to market losses on financial instruments	3.2	0.2
Foreign exchange gains	0.3	—
Inflation	(46.6)	(3.1)
Unfavorable product mix	(20.3)	(1.5)
Aunt Jemima retail and foodservice frozen breakfast products exit	34.2	2.7
Aunt Jemima retail and foodservice frozen breakfast products recall	8.6	0.4
Lower strategic manufacturing investments	4.3	0.3
Higher depreciation expense	(2.7)	(0.1)
Other (a)	(4.0)	(0.2)
Subtotal	$ 42.4	2.7 %
Higher sales volume	1.0	
Total	$ 43.4	

(a) Primarily higher compensation expense related to new hires in our supply chain.

Marketing and selling expenses

Marketing and selling expenses decreased 5.0% to $99.8 million, or 6.6% of net sales, for the six months ended July 1, 2018, compared to $105.1 million, or 7.0% of net sales for the prior year period. The decrease was primarily driven by lower compensation expense and lower professional fees.

Administrative expenses

Administrative expenses were $70.0 million, or 4.6% of net sales, for the six months ended July 1, 2018, compared to $69.6 million, or 4.6% of net sales, for the comparable prior year period.

Research and development expenses

Research and development expenses were $9.6 million, or 0.6% of net sales, for the six months ended July 1, 2018 compared to $8.6 million, or 0.6% of net sales, for the prior year period. The increase was primarily driven by higher compensation expenses.

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Other income and expense

	Six months ended	
	July 1, 2018	June 25, 2017
Other expense, net consists of:		
Amortization of intangibles/other assets	$4.7	$ 10.9
Foreign exchange losses/(gains)	0.9	(0.4)
Redemption premium on the early extinguishment of debt	4.3	—
Merger Agreement costs (Note 1)	10.8	—
Royalty income and other	(0.3)	(1.0)
Total other expense, net	$20.3	$ 9.5

Amortization of intangibles/other assets. The lower amortization expense was primarily driven by certain recipe intangible assets becoming fully amortized in the six months ended of 2017, as well as accelerated amortization being recognized in the six months ended of 2017 related to the exit of the gardein Private Label business and Aunt Jemima and other frozen breakfast products.

Foreign exchange losses/(gains). Represents foreign exchange gains from intra-entity loans resulting from the November 2014 Garden Protein acquisition that are anticipated to be settled in the foreseeable future.

Redemption premium on the early extinguishment of debt. On May 30, 2018, the Company redeemed all $350.0 million of its outstanding 4.875% Senior Notes at a redemption price of 101.2% of the aggregate principle amount resulting in a redemption premium paid of $4.3 million (the "Redemption Premium").

Earnings before interest and taxes

Earnings before interest and taxes increased 64.5 million, or 41.6%, to $219.7 million, primarily driven by higher gross profit and the favorable impact of items affecting comparability. Items affecting comparability totaled $22.6 million and $79.4 million in the six months ended July 1, 2018 and June 25, 2017, respectively. For the six months ended July 1, 2018, these items primarily resulted from charges related to the Merger Agreement, restructuring charges, and the Redemption Premium. For the six months ended June 25, 2017, these items primarily resulted from certain costs associated with the Exit. Excluding items affecting comparability, Adjusted Earnings Before Interest and Taxes increased $7.7 million, or 3.3%, to $242.3 million.

Frozen Segment:
Earnings before interest and taxes for the six months ended July 1, 2018 were $103.5 million, an increase of 167.6%, or $64.8 million, as compared to $38.7 million in the year-ago period, reflecting the favorable impact of items affecting comparability, primarily costs associated with the Exit. Also benefiting the period was the increase in net sales and productivity. Partially offsetting these items was input cost inflation, particularly higher logistic costs. Excluding items affecting comparability, Adjusted Earnings Before Interest and Taxes increased $18.4 million, or 20.4%, to $108.3 million as compared to $89.9 million in the year-ago period.

Grocery Segment:
Earnings before interest and taxes for the six months ended July 1, 2018 were $101.9 million, a decrease of 10.4%, or $11.8 million, as compared to $113.7 million in the year-ago period, reflecting lower net sales and higher input cost inflation. Partially offsetting these items was productivity. Excluding items affecting comparability, Adjusted Earnings Before Interest and Taxes decreased $12.8 million, or 11.1%, to $103.0 million as compared to $115.8

million in the year-ago period.

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Boulder Segment:
Earnings before interest and taxes for the six months ended July 1, 2018 were $27.9 million, an increase of $8.9 million, as compared to $18.9 million in the year-ago period, reflecting the favorable impact of items affecting comparability, primarily lower acquisition integration charges, as well as productivity. Partially offsetting these factors was input cost inflation. Excluding items affecting comparability, Adjusted Earnings Before Interest and Taxes increased $0.2 million, or 0.5%, to $29.2 million as compared to $29.0 million in the year-ago period.
Specialty Segment:
Earnings before interest and taxes for the six months ended July 1, 2018 were $17.7 million, compared to losses before interest and taxes of $1.8 million in the year-ago period, reflecting the favorable impact of items affecting comparability, largely due to lower charges from the Exit. Excluding items affecting comparability, Adjusted Earnings Before Interest and Taxes increased $3.7 million, or 26.4%, to $17.9 million as compared to $14.2 million in the year-ago period.

Unallocated corporate expense:
Unallocated corporate expense for the six months ended July 1, 2018 was $31.2 million, compared to $14.3 million in the year-ago period, largely reflecting the unfavorable impact of items affecting comparability primarily driven by charges related to the Merger Agreement and the Redemption Premium. Excluding items affecting comparability, Adjusted unallocated corporate expense increased $1.8 million, or 12.5%, to $16.1 million as compared to $14.3 million in the year ago period.

Interest expense, net

Net interest expense decreased 34.2%, or $37.4 million, to $71.9 million in the six months ended July 1, 2018, compared to $109.2 million in the six months ended June 25, 2017. Included in net interest expense in the six months ended July 1, 2018 is $10.9 million of charges related to the First Quarter 2018 Refinancing and $1.8 million of charges related to the Second Quarter 2018 Refinancing (Note 12). Included in net interest expense in the six months ended June 25, 2017 is $49.2 million of charges related to the 2017 Refinancing. These charges consisted of a $28.5 million non-cash charge from deferred financing costs and original issue discount and a $20.7 million cash charge resulting from the de-designation and early settlement of interest rate swaps. Excluding these charges, net interest expense in the six months ended July 1, 2018 decreased 1.0% to $59.2 million.

We utilize interest rate swap agreements to reduce the potential exposure to interest rate movements and to achieve a desired proportion of variable versus fixed-rate debt. Any gains or losses realized on the interest rate swap agreements, excluding the AOCL portion, are recorded as an adjustment to interest expense. Included in net interest expense was a $1.3 million gain and a $0.9 million loss for the six months of 2018 and 2017, respectively.

Provision for income taxes

The effective tax rate was 23.5% for the six months ended July 1, 2018 compared to 9.2% for the six months ended June 25, 2017.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into law. Among other provisions, the Act reduced the federal statutory corporate income tax rate from 35.0% to 21.0%. The Company continues to evaluate the impact of certain foreign and domestic income provisions of the Act and for the six months ended July 1, 2018 has determined those provisions will not have a material effect on its fiscal year 2018 financial statements. Once the Company finalizes its analysis of the Act it will be able to conclude on any further adjustments to be recorded in these provisional amounts. Any such adjustment is reported as a component of income taxes in the reporting period in which such adjustments are determined, which will be no later than the fourth quarter of 2018, or as a component of our 2018 annualized effective income tax rate, depending on the nature of the adjustment.

The rate for the six months ended July 1, 2018 reflects a decrease in the federal rate to 21.0% as a result of the Act. The rate also includes a benefit of 1.5% from share based payment transactions being recorded as an item of continuing operations in accordance with ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting” effective for our 2017 fiscal year, a benefit of 0.8% from an adjustment to our income tax liability, a charge of 1.0% from changes in state tax law and a charge of 0.5% from non-deductible transaction costs in connection with the Merger Agreement (Note 1).

The rate for the six months ended June 25, 2017 reflects the former 35.0% federal rate offset by a benefit of 21.9% from share based payment transactions and a benefit of 5.2% from changes in state tax law

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The Company is a loss corporation as defined by Section 382 of the Code. Section 382 places an annual limitation on our ability to use our NOL carryovers and other attributes to reduce future taxable income. As of July 1, 2018, we have federal NOL carryovers of $408.3 million subject to an annual limitation of $17.1 million. As a result, $237.2 million of the carryovers exceed the estimated available Section 382 limitation. The Company has reduced its deferred tax assets for this limitation.

We have significant tax-deductible intangible asset amortization and federal and state NOLs, which resulted in federal and state cash tax savings in 2017 and prior years. We expect continued amortization and utilization of our NOLs will generate additional cash tax savings in 2018 and thereafter.

Liquidity and Capital Resources

Historical

Our cash flows are seasonal. Typically we are a net user of cash in the third quarter of the calendar year (i.e., the quarter ending in September) and a net generator of cash over the balance of the year.

Our principal liquidity requirements have been, and we expect will be, for working capital and general corporate purposes, including capital expenditures, debt service and our quarterly dividend program. Currently, the quarterly dividend payment is $0.325 per share, or approximately $39.0 million per quarter. Capital expenditures are expected to be approximately $155.0 to $165.0 million in 2018. We have historically satisfied our liquidity requirements with internally generated cash flows and availability under our revolving credit facility. We expect that our ability to generate cash from our operations and ability to borrow from our credit facilities should be sufficient to support working capital needs, planned growth, capital expenditures, debt service and dividends for the next 12 months and for the foreseeable future. We have cash in foreign accounts, primarily related to the operations of our Canadian businesses. Tax liabilities related to bringing these funds back into the United States would not be significant and have been accrued.

Statements of cash flows for the six months ended July 1, 2018 compared to the six months ended June 25, 2017

For the six months ended July 1, 2018, net cash flow decreased $169.4 million compared to a decrease in net cash flow of $222.2 million for the six months ended June 25, 2017.

Net cash provided by operating activities was $214.8 million for the six months ended July 1, 2018, and was the result of net earnings, excluding non-cash charges and credits, of $201.3 million and an decrease in working capital of $13.4 million. The decrease in working capital was primarily the result of a $20.9 million increase in accounts payable resulting from seasonality and timing of disbursements, a $16.9 million decrease in accounts receivable primarily driven by timing in sales, a $1.1 million increase in accrued liabilities as well as a $0.7 million decrease in other current assets. These were partially offset by a $19.1 million increase in inventory balances primarily resulting from inflation and investments in innovation, partially offset by seasonally lower agricultural products as well as a $7.0 million decrease in accrued trade marketing expense driven by the seasonality of our marketing programs.

Net cash provided by operating activities was $120.3 million for the six months ended June 25, 2017, and was the result of net earnings, excluding non-cash charges and credits, of $207.4 million and an increase in working capital of $87.0 million. The increase in working capital was primarily the result of a $54.0 million decrease in accrued liabilities, primarily attributable to lower tax and interest accruals, a $20.7 million payment for the early settlement of interest rate hedges as a result of the 2017 Refinancing, a $31.7 million increase in inventories driven by inventory builds due to innovation and growth in the Birds-Eye franchise, partially offset by the Exit, a $17.7 million decrease in accrued trade marketing expense driven by accelerated funding of marketing programs compared to prior years and a $10.0 million increase in other current assets primarily from higher prepaid tax balances. These were partially offset by a $35.4 million increase in accounts payable resulting from seasonality and timing of disbursements as well as a

$11.8 million decrease in accounts receivable primarily driven by timing in sales.

Net cash used in investing activities was $59.7 million, for the six months ended July 1, 2018 and included $60.3 million for capital expenditures partially offset by $0.6 million of inflows from other investing activities.

Net cash used in investing activities was $47.4 million, for the six months ended June 25, 2017 and included $49.4 million for capital expenditures as well as $1.9 million in proceeds from the sale of plant assets.

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Net cash used by financing activities was impacted by our 2018 Refinancings, which is explained in greater detail in Note 12 to the Consolidated Financial Statements. Net cash used by financing activities for the six months ended July 1, 2018 was $324.1 million and consisted of $2,614.6 million of Term Loan and other long term debt repayments, $78.2 million of dividends paid, $6.6 million of debt acquisition costs, $8.6 million of net cash outflows for capital leases and notes payable activity and $5.5 million of net cash outflows related to our equity based compensation plans, partially offset by $2,289.4 million of net proceeds from our New Tranche B and Tranche A Term Loans and $100.0 million of borrowings under our revolving credit facility.

Net cash used by financing activities was impacted by our 2017 Refinancing, which is explained in greater detail in Note 12 to the Consolidated Financial Statements. Net cash used by financing activities for the six months ended June 25, 2017 was $295.4 million and consisted of $2,472.3 million of Term Loan repayments, $67.4 million of dividends paid, $12.9 million of debt acquisition costs, $4.8 million of net cash outflows for capital leases and notes payable activity partially offset by $2,262.0 million of net proceeds from our new Tranche B Term Loans and $0.1 million of net cash inflows related to our equity based compensation plans.

Debt

For more information on our debt, see Note 12 of the Consolidated Financial Statements "Debt and Interest Expense".

Covenant Compliance

The following is a discussion of the financial covenants contained in our debt agreements. See section below for detailed calculation.
Fourth Amended and Restated Credit Agreement

As discussed in more detail in Note 12 to the Financial Statements, On March 15, 2018, Pinnacle Foods Finance LLC, (1) entered into the First Amendment to the Third Amended and Restated Credit Agreement, which provided for both a six year term loan facility in the amount of $1,239.4 million (the "New Tranche B Term Loans") and a five year term loan facility in the amount of $800.0 million (the "Tranche A Term Loans") (together, the "Term Loans") (2) replaced the existing revolving credit facility with a new five year $300.0 million revolving credit facility, and (3) amended and restated the existing credit agreement (the "Fourth Amended and Restated Credit Agreement") in its entirety to make certain other amendments and modifications (the "First Quarter 2018 Refinancing").

Our Fourth Amended and Restated Credit Agreement contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to:

- incur additional indebtedness and make guarantees;
- create liens on assets;
- engage in mergers or consolidations;
- sell assets;
- pay dividends and distributions or repurchase our capital stock;
- make investments, loans and advances, including acquisitions; and
- engage in certain transactions with affiliates.

The Fourth Amended and Restated Credit Agreement also contains certain customary affirmative covenants and events of default.

5.875% Senior Notes

In January 2016, we issued the 5.875% Senior Notes. We refer to the 5.875% Notes as the "Senior Notes". The Senior Notes are general senior unsecured obligations, effectively subordinated to all of our existing and future secured indebtedness to the extent of the value of the assets securing that indebtedness, and guaranteed on a full, unconditional, joint and several basis by the Company and Pinnacle Foods Finance's wholly-owned domestic subsidiaries that guarantee our other indebtedness.

The indentures governing the Senior Notes limits our (and our restricted subsidiaries') ability to, subject to certain exceptions:

- incur additional debt or issue certain preferred shares;
- pay dividends on or make other distributions in respect of our capital stock or make other restricted payments;
- make certain investments;

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- sell certain assets;
- create liens on certain assets to secure debt;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with our affiliates; and
- designate our subsidiaries as unrestricted subsidiaries.

Subject to certain exceptions, the indenture governing the Senior Notes permits us and our restricted subsidiaries to incur additional indebtedness, including secured indebtedness.

Non-GAAP Financial Measures

Pinnacle uses the following non-GAAP financial measures as defined by the Securities and Exchange Commission in its financial communications. These non-GAAP financial measures should be considered as supplements to the GAAP reported measures, should not be considered replacements for, or superior to, the GAAP measures and may not be comparable to similarly named measures used by other companies.

- Adjusted Gross Profit
- Adjusted Gross Profit as a % of Sales
- Adjusted EBITDA
- Adjusted Earnings Before Interest and Taxes (Adjusted EBIT)
- Covenant Compliance EBITDA

Adjusted Gross Profit
Pinnacle defines Adjusted Gross Profit as gross profit before accelerated depreciation related to restructuring activities, certain non-cash items, acquisition, merger and other restructuring charges and other adjustments. The Company believes that the presentation of Adjusted Gross Profit is useful to investors in the evaluation of the operating performance of companies in similar industries. The Company believes this measure is useful to investors because it increases transparency and assists investors in understanding the underlying performance of the Company and in the analysis of ongoing operating trends. In addition, Adjusted Gross Profit is one of the components used to evaluate the performance of Company’s management. Such targets include, but are not limited to, measurement of sales efficiency, productivity measures and recognition of acquisition synergies.

Adjusted EBITDA
Pinnacle defines Adjusted EBITDA as earnings before interest expense, taxes, depreciation and amortization (“EBITDA”), further adjusted to exclude certain non-cash items, non-recurring items and certain other adjustment items permitted in calculating Covenant Compliance EBITDA under the Senior Secured Credit Facility and the indentures governing the Senior Notes. Adjusted EBITDA does not include adjustments for equity-based compensation and certain other adjustments related to acquisitions, both of which are permitted in calculating Covenant Compliance EBITDA.

Management uses Adjusted EBITDA as a key metric in the evaluation of underlying Company performance, in making financial, operating and planning decisions and, in part, in the determination of cash bonuses for its executive officers and employees. The Company believes this measure is useful to investors because it increases transparency and assists investors in understanding the underlying performance of the Company and in the analysis of ongoing operating trends. Additionally, Pinnacle believes the presentation of Adjusted EBITDA provides investors with useful information, as it is an important component in determining our ability to service debt and meet any payment obligations. In addition, Pinnacle believes that Adjusted EBITDA is frequently used by analysts, investors and other interested parties in their evaluation of companies, many of which present an Adjusted EBITDA measure when reporting their results although Pinnacle's calculation of Adjusted EBITDA may not be directly comparable to that of other companies. The Company has historically reported Adjusted EBITDA to analysts and investors and believes that its continued inclusion provides consistency in financial reporting and enables analysts and investors to perform meaningful comparisons of past, present and future operating results.

Adjusted EBITDA should not be considered as an alternative to operating or net earnings (loss), determined in accordance with GAAP, as an indicator of the Company’s operating performance, as an alternative to cash flows from operating activities, determined in accordance with GAAP, as an indicator of cash flows, or as a measure of liquidity.

Adjusted Earnings Before Interest and Taxes (Adjusted EBIT)

Adjusted Earnings Before Interest and Taxes is provided because the Company believes it is useful information in understanding our EBIT results by improving the comparability of year-to-year results. Additionally, Adjusted EBIT provides transparent and useful information to management, investors, analysts and other parties in evaluating and assessing the Company and its segments, primary operating results from period to period after removing the impact of unusual, non-operational or restructuring-related activities that affect comparability. Adjusted EBIT is one of the measures management uses for planning and budgeting, monitoring and evaluating financial and operating results and in the analysis of ongoing operating trends.

Covenant Compliance EBITDA

Covenant Compliance EBITDA is defined as earnings before interest expense, taxes, depreciation and amortization, further adjusted to exclude non-cash items, extraordinary, unusual or non-recurring items and other adjustment items permitted in calculating Covenant Compliance EBITDA under the Fourth Amended and Restated Credit Agreement and the indenture governing the Senior Notes. We believe that the inclusion of supplementary adjustments to EBITDA applied in presenting Covenant Compliance EBITDA is appropriate to provide additional information to investors to demonstrate compliance with our financial covenants.

EBITDA, Adjusted EBITDA and Covenant Compliance EBITDA do not represent net earnings or (loss) or cash flow from operations as those terms are defined by GAAP and do not necessarily indicate whether cash flows will be sufficient to fund cash needs. In particular, the definitions of Covenant Compliance EBITDA in the Senior Secured Credit Facility and the indentures allow the Company to add back certain non-cash, extraordinary, unusual or non-recurring charges that are deducted in calculating net earnings or loss. However, these are expenses that may recur, vary greatly and are difficult to predict. While EBITDA, Adjusted EBITDA and Covenant Compliance EBITDA and similar measures are frequently used as measures of operations and the ability to meet debt service requirements, they are not necessarily comparable to other similarly titled captions of other companies due to the potential inconsistencies in the method of calculation.

Pursuant to the terms of the Fourth Amended and Restated Credit Agreement, Pinnacle Foods Finance LLC is required to maintain a ratio of Net First Lien Secured Debt to Covenant Compliance EBITDA of no greater than 5.75 to 1.00. Net First Lien Secured Debt is defined as Pinnacle Foods Finance LLC's aggregate consolidated secured indebtedness secured on a first lien basis, less the aggregate amount of all unrestricted cash and cash equivalents.

In addition, under the Fourth Amended and Restated Credit Agreement and the indenture governing the Senior Notes, our ability to engage in activities such as incurring additional indebtedness, making investments and paying dividends is tied to the Senior Secured Leverage Ratio (which is currently the same as the ratio of Net First Lien Secured Debt to Covenant Compliance EBITDA described above), in the case of the Fourth Amended and Restated Credit Agreement, or to the ratio of Covenant Compliance EBITDA to fixed charges for the most recently concluded four consecutive fiscal quarters, in the case of the Senior Notes. We believe that these covenants are material terms of these agreements and that information about the covenants is material to an investor's understanding our financial performance. As of July 1, 2018, we were in compliance with all covenants and other obligations under the Fourth Amended and Restated Credit Agreement and the indentures governing the Senior Notes.

Our ability to meet the covenants specified above in future periods will depend on events beyond our control, and we cannot assure you that we will meet those ratios. A breach of any of these covenants in the future could result in a default under, or an inability to undertake certain activities in compliance with, the Fourth Amended and Restated Credit Agreement and the indentures governing the Senior Notes, at which time the lenders could elect to declare all amounts outstanding under the Fourth Amended and Restated Credit Agreement to be immediately due and payable. Any such acceleration would also result in a default under the indentures governing the Senior Notes.

The following table provides a reconciliation from our net earnings to EBITDA, Adjusted EBITDA and Covenant Compliance EBITDA for the three and six months ended July 1, 2018 and June 25, 2017, and the fiscal year ended December 31, 2017. The terms and related calculations are defined in the Fourth Amended and Restated Credit Agreement and the indentures governing the Senior Notes.

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(thousands of dollars)	Three months ended		Six months ended		Fiscal Year Ended
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017	December 31, 2017
Net earnings	$56,256	$18,618	$113,170	$41,767	$ 532,221
Interest expense, net	30,168	28,494	71,850	109,210	169,434
Income tax expense	17,624	(3,092)	34,729	4,251	(252,999)
Depreciation and amortization expense	27,363	53,811	54,251	80,899	132,887
EBITDA	$131,411	$97,831	$274,000	$236,127	$ 581,543
Non-cash items (a)	843	33,896	1,976	35,658	69,576
Acquisition, merger and other restructuring charges (b)	11,549	8,915	15,891	15,742	24,038
Other adjustment items (c)	4,267	—	4,267	—	—
Adjusted EBITDA	$148,070	$140,642	$296,134	$287,527	$ 675,157
Garden Protein and Boulder Brands acquisition adjustments (1)	(6,416)	(5,886)	14,119	16,029	4,000
Non-cash equity-based compensation charges (2)	5,700	5,547	9,979	9,656	18,728
Covenant Compliance EBITDA	$147,354	$140,303	$320,232	$313,212	$ 697,885
Last twelve months Covenant Compliance EBITDA			$704,905		

(1) For the three and six months ended July 1, 2018, represents net cost savings projected to be realized from acquisition synergies from the Boulder Brands acquisition, calculated consistent with the definition of Covenant Compliance EBITDA. We expect to fully realize the synergies in fiscal 2018. For the three and six months ended June 25, 2017 and fiscal 2017, represents net cost savings projected to be realized from acquisition synergies from the Boulder Brands and Garden Protein acquisitions, calculated consistent with the definition of Covenant Compliance EBITDA.

(2) Represents non-cash compensation charges related to the granting of equity awards that occur in the normal course of business.

(a) Non-cash items are comprised of the following:

(thousands of dollars)	Three months ended		Six months ended		Fiscal Year Ended
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017	December 31, 2017
Unrealized losses resulting from hedging activities (1)	$474	$2,324	$1,082	$4,319	$ 223
Tradename impairment charges (2)	—	27,430	—	27,430	66,530
Foreign exchange (gains)/losses (3)	369	(165)	894	(398)	(1,484)
Wind down of Boulder Brands UK operations (4)	—	(771)	—	(771)	(771)
Aunt Jemima and other frozen breakfast products exit (5)	—	5,078	—	5,078	5,078
Total non-cash items	$843	$33,896	$1,976	$35,658	$ 69,576

(1) Represents non-cash losses resulting from mark-to-market obligations under derivative contracts.

(2) For the three and six months ended June 25, 2017, represents tradename impairment on Aunt Jemima. For fiscal 2017, represents tradename impairment on Aunt Jemima ($27.4 million), Celeste ($24.8 million), Snyder of Berlin ($6.5 million), Nalley ($4.2 million), Bernstein ($3.1 million) and Swanson ($0.5 million).

(3) Represents foreign exchange gains and losses resulting from intra-entity loans that are anticipated to be settled in the foreseeable future.

(4) Represents adjustments resulting from the voluntary wind-down of the Boulder Brands private-label gluten-free bakery operation which was based in the United Kingdom.

(5) Primarily represents charges to adjust inventory to net realizable value resulting from the exit of the business.

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(b) Acquisition, merger and other restructuring charges are comprised of the following:

(thousands of dollars)	Three months ended		Six months ended		Fiscal Year Ended
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017	December 31, 2017
Restructuring charges, integration costs and other business optimization expenses (1)	713	4,591	4,305	10,441	16,107
Employee severance (2)	—	—	750	977	3,607
Aunt Jemima and other frozen breakfast products exit (3)	—	4,324	—	4,324	4,324
Merger agreement costs (4)	10,836	—	10,836	—	—
Total acquisition, merger and other restructuring charges	$11,549	$8,915	$15,891	$15,742	$ 24,038

(1) For the three and six months ended July 1, 2018, primarily represents integration costs of the Beaver Dam acquisition. For the three and six months ended June 25, 2017 and for fiscal 2017, primarily represents integration costs of the Garden Protein and Boulder Brands acquisitions.
(2) Represents severance costs for terminated employees not related to business acquisitions.
(3) Primarily represents employee termination costs and contract termination fees resulting from the exit of the business.
(4) For the three and six months ended July 1, 2018, represents various professional fees associated with the Merger Agreement.

(c) Other adjustment items is comprised of the following:

(thousands of dollars)	Three months ended		Six months ended		Fiscal Year Ended
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017	December 31, 2017
Redemption premium on the early extinguishment of debt (1)	4,267	—	4,267	—	—
Total other adjustments	$4,267	$ —	$4,267	$ —	$ —

(1) For the three and six months ended July 1, 2018, represents premiums paid on the May 30, 2018 redemption of $350.0 million of 4.875% Senior Notes due 2021.

Our covenant requirements and actual ratios for the twelve months ended July 1, 2018 are as follows:

	Covenant Requirement	Actual Ratio
Fourth Amended and Restated Credit Agreement		
Net First Lien Leverage Ratio (1)	5.75 to 1.00	3.32
Total Leverage Ratio (2)	Not applicable	3.82
Senior Notes (3)		
Minimum Covenant Compliance EBITDA to fixed charges ratio required to incur additional debt pursuant to ratio provisions (4)	2.00 to 1.00	6.10

(1)

Pursuant to the terms of the Fourth Amended and Restated Credit Agreement, Pinnacle Foods Finance LLC is required to maintain a ratio of Net First Lien Secured Debt to Covenant Compliance EBITDA of no greater than 5.75 to 1.00. Net First Lien Secured Debt is defined as Pinnacle Foods Finance LLC's aggregate consolidated secured indebtedness secured on a first lien priority basis, less the aggregate amount of all unrestricted cash and cash equivalents.

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(2) The Total Leverage Ratio is not a financial covenant but is used to determine the applicable margin rate under the Senior Secured Credit Facility. The interest rate on Tranche A Term Loans will decrease by 0.125 percent after we have attained a Total Leverage Ratio of less than 3.75 to 1.00. The Total Leverage Ratio is calculated by dividing consolidated total debt less the aggregate amount of all unrestricted cash and cash equivalents by Covenant Compliance EBITDA.

(3) Our ability to incur additional debt and make certain restricted payments under the indentures governing the Senior Notes, subject to specified exceptions, is tied to a Covenant Compliance EBITDA to fixed charges ratio of at least 2.00 to 1.00.

(4) Fixed charges is defined in the indenture governing the Senior Notes as (i) consolidated interest expense (excluding specified items) plus consolidated capitalized interest less consolidated interest income, plus (ii) cash dividends and distributions paid on preferred stock or disqualified stock.

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Pinnacle Foods Inc.
Reconciliation of Non-GAAP measures (Unaudited)
Adjusted Gross Profit and Adjusted Gross Profit as a % of sales
(thousands)

	Three months ended		Six months ended		Fiscal Year Ended
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017	December 31, 2017
Gross profit	$211,462	$163,927	$417,892	$374,500	$866,125
Accelerated depreciation expense - Aunt Jemima and other frozen breakfast products exit	—	23,602	—	23,602	22,554
Depreciation expense - Acquisition integration	—	—	458	—	—
Non-cash items (a)	474	7,402	1,082	9,397	5,301
Acquisition, merger and other restructuring charges (b)	686	8,345	4,399	13,631	17,171
Adjusted Gross Profit	$212,622	$203,276	$423,831	$421,130	$911,151
Adjusted Gross Profit as a % of sales	28.7 %	27.3 %	27.9 %	27.9 %	29.0 %

(a) Non-cash items are comprised of the following:

(thousands of dollars)	Three months ended		Six months ended		Fiscal Year Ended
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017	December 31, 2017
Unrealized losses resulting from hedging activities (1)	$474	$2,324	$1,082	$4,319	$ 223
Aunt Jemima and other frozen breakfast products exit (2)	—	5,078	—	5,078	5,078
Non-cash items	$474	$7,402	$1,082	$9,397	$ 5,301

(1) Represents non-cash losses resulting from mark-to-market obligations under derivative contracts.
(2) Primarily represents charges to adjust inventory to net realizable value resulting from the exit of the business.

(b) Acquisition, merger and other restructuring charges are comprised of the following:

(thousands of dollars)	Three months ended		Six months ended		Fiscal Year Ended
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017	December 31, 2017
Restructuring charges, integration costs and other business optimization expenses (1)	$686	$4,021	$3,649	$9,037	$ 11,192
Employee severance (2)	—	—	750	270	1,655
Aunt Jemima and other frozen breakfast products exit (3)	—	4,324	—	4,324	$ 4,324
Total acquisition, merger and other restructuring charges	$686	$8,345	$4,399	$13,631	$ 17,171

(1) For the three and six months ended July 1, 2018, primarily represents integration costs of the Beaver Dam acquisition. For the three and six months ended June 25, 2017 and for fiscal 2017, primarily represents integration costs of the Garden Protein and Boulder Brands acquisitions.

(2) Represents severance costs for terminated employees not related to business acquisitions.

(3) Primarily represents employee termination costs and contract termination fees resulting from the exit of the business.

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Pinnacle Foods Inc. and Subsidiaries
Reconciliation of Non-GAAP measures (Unaudited)
Adjusted EBIT (1)
(thousands)

	Three months ended		Six months ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Net earnings (as reported)	$56,256	$18,618	$113,170	$41,767
Interest expense, net	30,168	28,494	71,850	109,210
Provision for income taxes	17,624	(3,092)	34,729	4,251
Earnings before interest and taxes (as reported)	104,048	44,020	219,749	155,228
Accelerated depreciation expense - Aunt Jemima and other frozen breakfast products exit	—	23,602	—	23,602
Accelerated amortization expense - Aunt Jemima and other frozen breakfast products exit	—	3,783	—	3,783
Accelerated amortization expense - gardein Private Label business exit	—	—	—	656
Depreciation expense - acquisition integration	—	—	458	—
Non-cash items				
Unrealized losses resulting from hedging (2)	474	2,324	1,082	4,319
Tradename impairment charges (3)	—	27,430	—	27,430
Foreign exchange (gains)/losses (4)	369	(165)	894	(398)
Wind-down of Boulder Brands UK operations (5)	—	(771)	—	(771)
Aunt Jemima and other frozen breakfast products exit (6)	—	5,078	—	5,078
Acquisition, merger and other restructuring charges				
Restructuring and integration costs (7)	713	4,591	4,305	10,441
Employee severance (8)	—	—	750	977
Aunt Jemima and other frozen breakfast products exit (9)	—	4,324	—	4,324
Merger agreement costs (10)	10,836	—	10,836	—
Other adjustment items				
Redemption premium on the early extinguishment of debt (11)	4,267	—	4,267	—
Adjusted EBIT	$120,707	$114,216	$242,341	$234,669

(1) Excludes Boulder Brands and Garden Protein anticipated synergies which are included in calculating Covenant compliance.
(2) Represents non-cash losses resulting from mark-to-market obligations under derivative contracts.
(3) For the three and six months ended June 25, 2017, represents tradename impairment on Aunt Jemima.
(4) Represents foreign exchange gains and losses resulting from intra-entity loans that are anticipated to be settled in the foreseeable future.
(5) Represents adjustments resulting from the voluntary wind-down of the Boulder Brands private-label gluten-free bakery operation which is based in the United Kingdom.
(6) Primarily represents charges to adjust inventory to net realizable value resulting from the exit of the business.
(7) For the three and six months ended July 1, 2018, primarily represents integration costs of the Beaver Dam acquisition. For the three and six months ended June 25, 2017 and for fiscal 2017, primarily represents integration costs of the Garden Protein and Boulder Brands acquisitions.
(8) Represents severance costs for terminated employees not related to business acquisitions.
(9) Primarily represents employee termination costs and contract termination fees resulting from the exit of the business.

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(10) For the three and six months ended July 1, 2018, represents various professional fees associated with the Merger Agreement.

(11) For the three and six months ended July 1, 2018, represents premiums paid on the May 30, 2018 redemption of $350.0 million of 4.875% Senior Notes due 2021.

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Pinnacle Foods Inc.
Reconciliation of Non-GAAP measures (Unaudited)
Adjusted Net Interest Expense
(thousands)

	Three months ended		Six months ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Interest expense	$30,184	$28,507	$72,078	$109,238
Interest income	16	13	228	28
Net Interest Expense (as reported)	30,168	28,494	71,850	109,210
Cash settlement of hedges related to refinancing	—	—	—	(20,722)
Non-cash recognition of deferred costs related to refinancing (1)	—	—	(10,913)	(28,494)
Non-cash recognition of deferred costs related to redemption of 4.875% Senior Notes (2)	(1,768)	—	(1,768)	—
Other expenses related to refinancing	—	—	—	(235)
Adjusted Net Interest Expense	$28,400	$28,494	$59,169	$59,759

(1) For the six months ended July 1, 2018, represents a non-cash charge for deferred financing costs resulting from the First Quarter 2018 Refinancing. For the six months ended June 25, 2017, represents charges associated with the 2017 Refinancing which consisted of recognizing a non-cash charge for deferred financing costs.

(2) For the three and six months ended July 1, 2018, represents non-cash charge for deferred financing costs resulting from the May 30, 2018 redemption of $350.0 million of 4.875% Senior Notes due 2021.

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Pinnacle Foods Inc.
Reconciliation from Reported to Adjusted Segment EBIT Amounts (unaudited)
For the three and six months ended July 1, 2018 and June 25, 2017 (thousands)

	Three months ended		Six months ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Earnings before interest & taxes - Reported				
Frozen	$49,740	$(12,260)	$103,451	$38,662
Grocery	52,131	61,870	101,879	113,677
Boulder	16,018	12,249	27,869	18,921
Specialty	9,489	(10,648)	17,705	(1,760)
Unallocated corporate expenses	(23,330)	(7,191)	(31,155)	(14,272)
Total	$104,048	$44,020	$219,749	$155,228
Adjustments (Non GAAP - See separate table)				
Frozen	$587	$50,341	$4,863	$51,285
Grocery	383	1,193	1,137	2,151
Boulder	514	3,576	1,290	10,082
Specialty	72	15,085	199	15,922
Unallocated corporate expenses	15,103	—	15,103	—
Total	$16,659	$70,195	$22,592	$79,440
Earnings before interest & taxes - Adjusted (Non GAAP - See separate discussion and tables)				
Frozen	$50,327	$38,081	$108,314	$89,947
Grocery	52,514	63,063	103,016	115,828
Boulder	16,532	15,825	29,159	29,003
Specialty	9,561	4,437	17,904	14,162
Unallocated corporate expenses	(8,227)	(7,191)	(16,052)	(14,272)
Total	$120,707	$114,215	$242,341	$234,668

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Pinnacle Foods Inc.
Reconciliation from Reported to Adjusted Segment Amounts
Supplemental Schedule of Adjustments Detail (unaudited)
For the three and six months ended July 1, 2018 and June 25, 2017
(millions)

	Adjustments to Earnings Before Interest and Taxes			
	Three months ended		Six months ended	
	July 1, 2018	June 25, 2017	July 1, 2018	June 25, 2017
Frozen				
Aunt Jemima and other frozen breakfast products exit	$—	$49.4	$—	$49.4
Restructuring and acquisition integration charges	0.4	0.1	4.1	0.2
Employee severance	—	—	0.3	0.1
Unrealized mark-to-market loss/(gain)	0.2	0.8	0.5	1.6
Total Frozen	$0.6	$50.3	$4.9	$51.3
Grocery				
Restructuring and acquisition integration charges	$0.2	$0.1	$0.5	$0.1
Employee severance	—	—	0.3	0.1
Unrealized mark-to-market loss/(gain)	0.2	1.1	0.3	2.0
Total Grocery	$0.4	$1.2	$1.1	$2.2
Boulder				
Restructuring and acquisition integration charges	$0.5	$3.3	$1.1	$8.9
Employee severance	—	—	0.1	0.7
Unrealized mark-to-market loss/(gain)	—	0.3	0.1	0.5
Total Boulder	$0.5	$3.6	$1.3	$10.1
Specialty				
Aunt Jemima and other frozen breakfast products exit	$—	$14.8	$—	$14.8
Restructuring charges	—	0.2	—	0.2
Employee severance	—	—	0.1	—
Unrealized mark-to-market loss/(gain)	0.1	0.1	0.1	0.2
Accelerated amortization due to the exit of the gardein Private Label business	—	—	—	0.7
Total Specialty	$0.1	$15.1	$0.2	$15.9
Unallocated Corporate Expenses				
Merger agreement costs	$10.8	$—	$10.8	$—
Redemption premium on early extinguishment of debt	4.3	—	4.3	—
Total Unallocated Corporate Expenses	$15.1	$—	$15.1	$—

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Contractual Commitments

Our contractual commitments consist mainly of payments related to long-term debt and related interest, operating and capital lease payments, certain take-or-pay arrangements entered into as part of the normal course of business and pension obligations. Refer to the “Contractual Commitments” section of the Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K filed with the SEC on March 1, 2018 for details on our contractual obligations and commitments.

Off-Balance Sheet Arrangements

As of July 1, 2018, we did not have any off-balance sheet obligations.

Critical Accounting Policies and Estimates

We have disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Form 10-K filed with the SEC on March 1, 2018, those accounting policies that we consider to be significant in determining our results of operations and financial condition. There have been no material changes to those policies that we consider to be significant since the filing of the 10-K. We believe that the accounting principles utilized in preparing our unaudited consolidated financial statements conform in all material respects to GAAP.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

FINANCIAL INSTRUMENTS

Risk Management Strategy

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of our debt funding and the use of derivative financial instruments. The primary risks managed by using derivative instruments are interest rate risk, foreign currency exchange risk and commodity price risk. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates, foreign exchange rates or commodity prices. Please refer to Note 14 of the Consolidated Financial Statements "Financial Instruments" for additional details regarding our derivatives and refer to Note 12 of the Consolidated Financial Statements "Debt and Interest Expense" for additional details regarding our debt instruments. There were no significant changes in our exposures to market risk since December 31, 2017.

See “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” included in our Form 10-K filed with the SEC on March 1, 2018.

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ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in our reports that we file or submit under the Exchange Act (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, with the participation of our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of July 1, 2018. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of July 1, 2018, at a level of reasonable assurance.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 15d-15(f) of the Exchange Act) that occurred during the fiscal quarter ended July 1, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

ITEM 1: LEGAL PROCEEDINGS

No material legal proceedings are currently pending.

ITEM 1A: RISK FACTORS

Our risk factors are summarized under the “Risk Factors” section of our Form 10-K filed on March 1, 2018. There have been no material changes to our risk factors since the filing of the Form 10-K.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4: MINE SAFETY DISCLOSURES

None

ITEM 5: OTHER INFORMATION

None

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ITEM 6: EXHIBITS

See the Exhibit Index immediately following the signature page hereto, which Exhibit Index is incorporated by reference as if fully set forth herein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PINNACLE FOODS INC.

By:	/s/ Craig Steeneck
Name:	Craig Steeneck
Title:	Executive Vice President and Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer and Authorized Officer)
Date:	August 2, 2018

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PINNACLE FOODS INC.
Exhibit Index

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference from Form	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Pinnacle Foods Inc.		8-K	3.1	4/3/2013
3.2	Second Amended and Restated Bylaws of Pinnacle Foods Inc.		8-K	3.1	2/16/2016
4.1	Form of Stock Certificate for Common Stock		S-1/A	4.1	3/7/2013
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	X			
31.2	Rule 13a-14(a)/15d-14(a) Certification of Executive Vice President and Chief Financial Officer	X			
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
32.2**	Certification of Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (A)	X			
101.1	The following materials are formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Earnings, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Shareholders' Equity, (vi) Notes to Consolidated Financial Statements, and (vii) document and entity information.	X			

**This certification will not be deemed “filed” for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.