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**Report to the Lenders, as detailed in the Senior Credit Agreement dated April 2, 2007, and the Holders of \$325,000,000 Aggregate Principal Amount of 9¼% Senior Notes due 2015 and the \$250,000,000 Aggregate Principal Amount of 10 5/8% Senior Subordinated Notes due 2017.**

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**QUARTERLY REPORT FOR THE QUARTERLY PERIOD ENDED JULY 1, 2007**

**Pinnacle Foods Finance LLC**

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

**20-8720036**  
(I.R.S. Employer Identification No.)

**1 Old Bloomfield Avenue**  
**Mt. Lakes, New Jersey**  
(Address of Principal Executive Offices)

**07046**  
(Zip Code)

**Telephone number, including area code: (973) 541-6620**

**Report Date – August 15, 2007**

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## PART I – FINANCIAL INFORMATION

### ITEM 1: FINANCIAL STATEMENTS

*Unaudited consolidated financial statements begin on the following page*

As discussed in Note 1 to the unaudited Consolidated Financial Statements, The Blackstone Group acquired the Company (as defined below) on April 2, 2007. Therefore, in accordance with Generally Accepted Accounting Principals and for purposes of identification and description, Pinnacle Foods Group Inc. (“PFGI”) is referred to as the “Predecessor” for the period prior to the acquisition occurring on April 2, 2007 and Pinnacle Foods Finance LLC (“PFF” or the “Company”) is referred to as the “Successor” for the period subsequent to the acquisition.

As a point of clarification, the following financial statements that are presented on the pages indicated cover the time periods described below:

Page 2 - Consolidated Statements of Operations

- Successor’s three months ended July 1, 2007
- Predecessor’s activities on April 2, 2007, immediately prior to the Blackstone Transaction.
- Predecessor’s three months ending June 25, 2006.
- Predecessor’s activities from January 1, 2007 to April 2, 2007, immediately prior to the Blackstone Transaction.
- Predecessor’s six months ending June 25, 2006

Page 3 - Consolidated Balance Sheets

- As of July 1, 2007 for the Successor
- As of December 31, 2006 for the Predecessor

Page 4 - Consolidated Statements of Cash Flows

- Successor’s three months ended July 1, 2007
- Predecessor’s activities from January 1, 2007 to April 2, 2007, immediately prior to the Blackstone Transaction.
- Predecessor’s six months ending June 25, 2006

Page 5 - Consolidated Statement of Shareholder’s Equity

- Successor’s three months ended July 1, 2007
- Predecessor’s activities from January 1, 2007 to April 2, 2007, immediately prior to the Blackstone Transaction.

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

	Three months ended			Six months ended		
	Successor	Predecessor		Successor	Predecessor	
	Three months ended July 1, 2007	Three months ended April 2, 2007	Three months ended June 25, 2006	Three months ended July 1, 2007	January 1, 2007 to April 2, 2007	Six months ended June 25, 2006
Net sales	\$ 365,863	\$ -	\$ 365,714	\$ 365,863	\$ 376,587	\$ 679,599
Costs and expenses						
Cost of products sold	315,274	1,172	292,723	315,274	293,191	546,616
Marketing and selling expenses	33,555	2,931	26,333	33,555	34,975	50,425
Administrative expenses	14,115	3,935	12,805	14,115	17,714	26,402
Research and development expenses	952	335	988	952	1,437	1,920
Other expense (income), net	1,900	49,129	3,016	1,900	51,042	4,726
Total costs and expenses	365,796	57,502	335,865	365,796	398,359	630,089
Earnings (loss) before interest and taxes	67	(57,502)	29,849	67	(21,772)	49,510
Interest expense	44,332	18,862	21,870	44,332	39,079	41,392
Interest income	461	-	261	461	486	400
(Loss) earnings before income taxes	(43,804)	(76,364)	8,240	(43,804)	(60,365)	8,518
Provision (benefit) for income taxes	4,514	(86)	7,135	4,514	6,284	13,833
Net (loss) earnings	\$ (48,318)	\$ (76,278)	\$ 1,105	\$ (48,318)	\$ (66,649)	\$ (5,315)

See accompanying Notes to Unaudited Consolidated Financial Statements

See explanatory note on page 1 for a description of the periods presented.

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

	Successor July 1, 2007	Predecessor December 31, 2006
Current assets:		
Cash and cash equivalents	\$ 16,300	\$ 12,337
Accounts receivable, net	97,710	85,583
Inventories, net	164,566	178,300
Other current assets	8,208	4,496
Deferred tax assets	2,044	1,838
Total current assets	<u>288,828</u>	<u>282,554</u>
Plant assets, net	247,552	253,387
Tradenames	797,582	797,582
Other assets, net	71,006	56,397
Goodwill	1,258,998	402,161
Total assets	<u>\$ 2,663,966</u>	<u>\$ 1,792,081</u>
Current liabilities:		
Current portion of long-term obligations	\$ 12,749	\$ 123
Notes payable	1,061	210
Accounts payable	78,410	57,543
Accrued trade marketing expense	30,883	37,152
Accrued liabilities	86,141	81,248
Accrued income taxes	229	1,042
Total current liabilities	<u>209,473</u>	<u>177,318</u>
Long-term debt (includes \$2,748 owed to a related party at December 31, 2006)	1,813,441	920,630
Pension and other postretirement benefits	20,935	16,109
Other long-term liabilities	4,646	1,962
Deferred tax liabilities	233,558	237,707
Total liabilities	<u>2,282,053</u>	<u>1,353,726</u>
Commitments and contingencies		
Shareholder's equity:		
Common stock: par value \$.01 per share, 100 shares authorized, issued 100 shares	-	-
Additional paid-in-capital	424,214	573,403
Accumulated other comprehensive income, net of income taxes	6,017	161
Carryover of Predecessor basis of net assets	-	(17,338)
Accumulated deficit	(48,318)	(117,871)
Total shareholder's equity	<u>381,913</u>	<u>438,355</u>
Total liabilities and shareholder's equity	<u>\$ 2,663,966</u>	<u>\$ 1,792,081</u>

See accompanying Notes to Unaudited Consolidated Financial Statements

See explanatory note on page 1 for a description of the periods presented.

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOW (unaudited)**  
(in thousands, except share amounts and where noted in millions)

	Six months ended		
	Successor	Predecessor	
	Three months ended July 1, 2007	January 1, 2007 to April 2, 2007	Six months ended June 25, 2006
Cash flows from operating activities			
Net (loss) from operations	\$ (48,318)	\$ (66,649)	\$ (5,315)
Non-cash charges (credits) to net (loss)			
Depreciation and amortization	9,692	10,163	20,847
Amortization of debt acquisition costs	5,387	26,049	3,259
Amortization of bond premium	-	(5,360)	(278)
Change in value of financial instruments	(1,472)	1,247	(182)
Stock-based compensation charges	178	8,778	2,015
Postretirement healthcare benefits	378	294	330
Pension expense	393	360	784
Other long-term liabilities	(34)	2,464	80
Deferred income taxes	4,197	6,299	12,992
Changes in working capital, net of acquisition			
Accounts receivable	6,626	(18,339)	(36,071)
Inventories	31,078	20,045	53,879
Accrued trade marketing expense	(9,365)	2,754	4,867
Accounts payable	7,297	14,286	2,220
Accrued liabilities	(469)	53,433	974
Other current assets	(1,849)	(140)	641
Net cash provided by operating activities	3,719	55,684	61,042
Cash flows from investing activities			
Payments for business acquisitions, net of cash acquired	(1,319,246)	-	(186,869)
Capital expenditures	(6,541)	(5,027)	(8,945)
Sale of plant assets	2,200	-	-
Net cash used in investing activities	(1,323,587)	(5,027)	(195,814)
Cash flows from financing activities			
Change in bank overdrafts	-	(908)	(6,713)
Repayment of capital lease obligations	(88)	(55)	(77)
Equity contributions	420,414	-	-
Reduction of equity contributions	(391)	-	-
Predecessor's equity contributions	-	26	40,000
Debt acquisition costs	(39,785)	-	(3,743)
Proceeds from bank term loan	1,250,000	-	143,000
Proceeds from bond issuances	575,000	-	-
Proceeds from notes payable borrowing	12,102	-	2,410
Repayments of notes payable	(11,042)	-	-
Repayments of Predecessor's notes payable	-	(210)	(947)
Repayments of Predecessor's long term obligations	(870,042)	(45,146)	(30,000)
Net cash provided by (used in) financing activities	1,336,168	(46,293)	143,930
Effect of exchange rate changes on cash	-	-	-
Net change in cash and cash equivalents	16,300	4,364	9,158
Cash and cash equivalents - beginning of period	-	12,337	519
Cash and cash equivalents - end of period	\$ 16,300	\$ 16,701	\$ 9,677
Supplemental disclosures of cash flow information:			
Interest paid	\$ 27,194	\$ 9,135	\$ 45,256
Interest received	461	486	400
Income taxes paid	(27)	(103)	(216)
Non-cash investing activity:			
Capital lease activity	-	(1,129)	(12)
Non-cash financing activity:			
Equity contribution	4,013	-	-

See accompanying Notes to Unaudited Consolidated Financial Statements

See explanatory note on page 1 for a description of the periods presented.

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (unaudited)**  
(in thousands, except share amounts and where noted in millions)

	Common Stock		Additional Paid In Capital	Retained Earnings (Deficit)	Carryover of Predecessor basis of net assets	Accumulated Other Comprehensive Income (loss)	Total Shareholder's Equity
	Shares	Amount					
<b>Predecessor</b>							
Balance at December 25, 2005	100	\$ -	\$ 529,425	\$ (151,795)	\$ (17,338)	\$ (3,768)	\$ 356,524
Equity contributions:							
Cash			40,000				40,000
Equity related compensation			2,015				2,015
Comprehensive income:							
Net loss				(5,315)			(5,315)
Foreign currency translation						64	64
Total comprehensive loss							(5,251)
Balance at June 25, 2006	100	\$ -	\$ 571,440	\$ (157,110)	\$ (17,338)	\$ (3,704)	\$ 393,288
Balance at December 31, 2006	100	\$ -	\$ 573,403	\$ (117,871)	\$ (17,338)	\$ 161	\$ 438,355
Effect of initially applying FASB Interpretation No. 48				(260)			(260)
Equity contribution:							
Cash			26				26
Equity related compensation			8,778				8,778
Comprehensive income:							
Net loss				(66,649)			(66,649)
Foreign currency translation						(4)	(4)
Total comprehensive earnings							(66,653)
Balance at April 2, 2007	100	\$ -	\$ 582,207	\$ (184,780)	\$ (17,338)	\$ 157	\$ 380,246
<b>Successor</b>							
Balance at April 2, 2007	100	\$ -	\$ 422,192	\$ -	\$ -	\$ -	\$ 422,192
Equity contributions:							
Cash			2,235				2,235
Reduction of equity contributions			(391)				(391)
Equity related compensation			178				178
Comprehensive income:							
Net loss				(48,318)			(48,318)
Swap mark to market adjustment, net of income taxes						5,795	5,795
Foreign currency translation						222	222
Total comprehensive earnings							(42,301)
Balance at July 1, 2007	100	\$ -	\$ 424,214	\$ (48,318)	\$ -	\$ 6,017	\$ 381,913

See accompanying Notes to Unaudited Consolidated Financial Statements

See explanatory note on page 1 for a description of the periods presented.

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

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**1. Summary of Business Activities**

Business Overview

Pinnacle Foods Finance LLC (hereafter referred to as the “Company” or “PFF”) is a leading producer, marketer and distributor of high quality, branded convenience food products, the products and operations of which are managed and reported in two operating segments: (i) dry foods and (ii) frozen foods. The Company’s dry foods segment consists primarily of Vlasic® pickles, peppers and relish products, Duncan Hines® baking mixes and frostings, Mrs. Butterworth’s® and Log Cabin® syrups and pancake mixes, Open Pit® barbecue sauce and Armour® canned meats, as well as food service and private label products. The Company’s frozen foods segment consists primarily of Swanson® and Hungry Man® frozen foods products, Van de Kamp’s® and Mrs. Paul’s® frozen seafood, Aunt Jemima® frozen breakfasts, Lender’s® bagels and Celeste® frozen pizza, as well as food service and private label products.

History and the Blackstone Transaction

On May 22, 2001, Pinnacle Foods Holding Corp. (“PFHC”) acquired certain assets and assumed certain liabilities of the North American business of Vlasic Foods International Inc. (“VFI”). The North American business consisted of the Swanson and Hungry-Man frozen food, Vlasic pickles, peppers and relish and Open Pit barbecue sauce businesses. PFHC was incorporated on March 29, 2001 but had no operations until the acquisition of the North American business of VFI.

Crunch Holding Corp. (“CHC”), a Delaware corporation indirectly owned by J.P. Morgan Partners, LLC, J.W. Childs Associates, L.P. and CDM Investor Group LLC, acquired PFHC on November 25, 2003 (the “Pinnacle Transaction”).

On November 25, 2003, Aurora Foods Inc. (“Aurora”) entered into a definitive agreement with Crunch Equity Holding, LLC, the parent of CHC. The definitive agreement provided for a comprehensive restructuring transaction in which PFHC was merged with and into Aurora, with Aurora surviving the merger, following the filing and confirmation of a pre-negotiated bankruptcy reorganization case with respect to Aurora under Chapter 11 of the U.S. Bankruptcy Code. On December 8, 2003, Aurora and its subsidiary, Sea Coast Foods, Inc., filed their petitions for reorganization with the Bankruptcy Court. On February 20, 2004, the First Amended Joint Reorganization Plan of Aurora Foods Inc. and Sea Coast Foods, Inc., as modified, dated February 17, 2004, were confirmed by order of the Bankruptcy Court. This restructuring transaction was completed on March 19, 2004, and the surviving company was renamed Pinnacle Foods Group Inc. (the “Aurora Merger”).

On March 1, 2006, the Company acquired certain assets and assumed certain liabilities of the food products business (the “Armour Business”) of The Dial Corporation for \$189.2 million in cash. The acquisition of the Armour Business complemented the Company’s existing product lines that together provide growth opportunities and scale. The Armour Business is a leading manufacturer, distributor and marketer of products in the \$1.0 billion canned meat category. For the year ended December 31, 2005, the Armour Business had net sales of approximately \$225 million. The Armour Business offers products in twelve of the fifteen segments within the canned meat category and maintains the leading market position in the Vienna sausage, potted meat and sliced beef categories. The business also includes meat spreads, chili, luncheon meat, corned and roast beef hash and beef stew. The majority of the products are produced at the manufacturing facility located in Ft. Madison, Iowa, which was acquired in the transaction. Products are sold under the Armour brand name as well as private label and certain co-pack arrangements.

On February 10, 2007, CHC, our parent company, entered into an Agreement and Plan of Merger with Peak Holdings LLC (“Peak Holdings”), a Delaware limited liability company controlled by affiliates of The Blackstone Group, Peak Acquisition Corp. (“Peak Acquisition”), a wholly owned subsidiary of Peak Holdings, and Peak Finance LLC (“Peak Finance”), an indirect wholly owned subsidiary of Peak Acquisition, providing for the acquisition of CHC. Under the terms of the Agreement and Plan of Merger, the purchase price for CHC was \$2,162.5 million in cash less the amount of indebtedness (including capital lease obligations) of CHC and its subsidiaries outstanding immediately prior to the closing and certain transaction costs, subject to purchase price adjustments based on the balance of working capital and indebtedness as of the closing. Pursuant to the Agreement and Plan of Merger, immediately prior to the closing, CHC contributed all of the outstanding shares of capital stock of its wholly owned subsidiary, Pinnacle Foods Group Inc. (“PFGI”), to a newly-formed Delaware limited liability company, PFF. At the closing, Peak Acquisition merged with and into CHC, with CHC as the surviving corporation, and Peak Finance merged with and into PFF, with PFF as the surviving entity. As a result of the

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

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Merger, CHC will become a wholly-owned subsidiary of Peak Holdings. This transaction closed on April 2, 2007 (the "Blackstone Transaction").

For purposes of identification and description, Pinnacle Foods Group Inc. ("PFGI"), is referred to as the "Predecessor" for the period prior to the Blackstone Transaction occurring on April 2, 2007, and Pinnacle Foods Finance LLC ("PFF" or the "Company") is referred to as the "Successor" for the period subsequent to the Blackstone Transaction.

Each share of CHC's issued and outstanding stock immediately prior to closing was converted into the right to receive the per share merger consideration (approximately \$1.975 per share) in cash. The aggregate purchase price was approximately \$2,162.5 million, including the repayment of outstanding debt under the Predecessor's senior secured credit facilities and senior subordinated notes and the assumption of capital lease obligations. The purchase price adjustment was approximately \$2.3 million, was finalized in August 2007 and is included in the amounts below.

In June 2001, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes accounting and reporting for business combinations. SFAS No. 141 requires all business combinations be accounted for using the purchase method of accounting. SFAS No. 142 provides that goodwill and other intangible assets with indefinite lives will not be amortized, but will be tested for impairment on an annual basis. The Successor has accounted for the Blackstone Transaction in accordance with these standards. The acquisition of CHC is being treated as a purchase with Peak Holding (whose sole asset is its indirect investment in the common stock of PFF) as the accounting acquiror in accordance with SFAS No. 141, and is accounted for in accordance with Emerging Issues Task Force ("EITF") Issue No. 88-16, "Basis in Leveraged Buyout Transactions."

The cost of the Blackstone Transaction consists of:

Stated purchase price	\$ 2,162,500
Working capital and other adjustments	(2,338)
Assumed debt	<u>(1,278)</u>
Subtotal - merger consideration	2,158,884
Transaction costs	<u>110,631</u>
Total cost of acquisition	<u>\$ 2,269,515</u>

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

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The purchase price allocation discussed below is preliminary and subject to finalization of appraisals and accounting for income taxes. Portions of the purchase price, including intangible assets, are being identified by independent appraisers utilizing proven valuation procedures and techniques. While the Company is awaiting receipt of the final valuation report supporting the valuation of inventories, fixed assets and intangible assets, the amounts listed below were based upon preliminary analysis. The following table summarizes the preliminary allocation of the total cost of the Blackstone Transaction to the assets acquired and liabilities assumed:

Assets recorded:	
Cash	\$ 16,701
Accounts receivable	103,921
Inventories	195,299
Other current assets	6,557
Deferred tax assets	2,997
Plant assets	250,944
Tradenames	797,582
Other assets	68,223
Goodwill	1,260,090
Fair value of assets acquired	<u>2,702,314</u>
Accounts payable	70,927
Accrued liabilities	105,851
Pension and other postretirement benefits	20,164
Other long-term liabilities	7,590
Deferred tax liabilities	226,989
Capital leases	1,278
Purchase price	<u>\$ 2,269,515</u>

Based upon the preliminary allocation, the value assigned to intangible assets totaled \$2,086.1 million. Of the total intangible assets, \$11.4 million has been assigned to recipes and formulas, with \$6.9 million allocated to the dry foods segment and \$4.6 million allocated to the frozen foods segment. The recipes and formulas are being amortized over 5 years. In addition, \$17.0 million has been assigned to private label customer relationships, which was all recorded in the dry foods segment and is being amortized over seven years. The Company has also assigned \$797.6 million to the value of the tradenames acquired, with \$568.7 million allocated to the dry foods segment and \$228.9 million allocated to the frozen foods segment. The values of the tradenames are not subject to amortization. Goodwill, which is also not subject to amortization, totaled \$1,260.1 million, with \$768.7 million allocated to the dry foods segment and \$491.4 million allocated to the frozen foods segment.

In accordance with the requirements of the purchase method of accounting for acquisitions, inventories as of April 2, 2007 are required to be valued at fair value (net realizable value, which is defined as estimated selling prices less the sum of (a) costs of disposal and (b) a reasonable profit allowance for the selling effort of the acquiring entity) which in the case of finished products we estimated to be \$37.0 million higher than the Predecessor's historical manufacturing cost. The Successor's cost of products sold for the three months ended July 1, 2007 includes a pre-tax charge of \$35.9 million related to the finished products sold during the period from April 2, 2007 to July 1, 2007. The balance of the charge, \$1.1 million, will be expensed during the third quarter of 2007 when the inventories will be sold.

The Blackstone Transaction was financed through borrowings of a \$1,250 million term loan and a \$10 million revolver drawing under the Successor's Senior Secured Credit Facilities, \$325 million of Senior Notes and \$250 million of Senior Subordinated Notes, all issued on April 2, 2007 and \$422.2 million equity contribution from the Blackstone Group and other investors and \$12.3 million in existing cash.

Other Blackstone Transaction Related Matters

Immediately prior to closing, pursuant to their original terms, all of the Predecessor's outstanding stock options vested and the Predecessor exercised its purchase option to purchase at fair value all of the shares of common stock to be acquired by exercise of options held by employees pursuant to the Predecessor's Stock Option Plan. As a result, compensation expense of approximately \$8.4 million was recorded in the Consolidated Statement of Operations of the Predecessor immediately before the Blackstone Transaction related to the fair value of the options exercised.

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

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On March 8, 2007, the Predecessor commenced a cash tender offer to purchase any and all of the outstanding 8.25% Senior Subordinated Notes due 2013 (the "Existing Notes") of the Predecessor, and a related consent solicitation to amend the indenture pursuant to which the Existing Notes were issued. The tender offer and consent solicitation were made in connection with the Blackstone Transaction. The tender offer and consent solicitation were made upon the terms and conditions set forth in an Offer to Purchase and Consent Solicitation Statement dated March 8, 2007 and the related Consent and Letter of Transmittal. The total cost of the cash tender offer for the Existing Notes was \$35.5 million and was recorded as a charge in the Consolidated Statement of Operations of the Predecessor immediately before the Blackstone Transaction.

Due to the cash tender offer for the Existing Notes and the repayment in full of the Predecessor's senior secured credit facility, which were both done in connection with the Blackstone Transaction, the Predecessor recorded in the Consolidated Statement of Operations of the Predecessor immediately before the Blackstone Transaction a charge of \$24.1 million for the unamortized portion of the deferred financing costs and a credit of \$5.2 million for the unamortized portion of the original issue premium on the Existing Notes.

The closing of the transaction represented a change in control under certain Predecessor contracts, including the former Chairman's employment agreements as well as contracts with affiliates of the former Chairman. As a result, the Predecessor was required to pay \$12.9 million pursuant to these agreements and recorded a charge for such amount in the Consolidated Statement of Operations of the Predecessor immediately before the Blackstone Transaction.

The Management Agreement between the Predecessor and JPMorgan Partners, LLC and J.W. Childs Associates, L.P. was terminated at closing.

Pro forma Information

The following schedule includes consolidated statements of operations data for the unaudited pro forma results for the six months ended July 1, 2007 and June 25, 2006 as if the Blackstone Transaction had occurred as of the beginning of each of the fiscal years shown below. The pro forma information includes the actual results with pro forma adjustments for the change in interest expense related to the new financing, purchase accounting adjustments related to pension and other post-employment benefit liabilities, the cancellation of certain contracts of the Predecessor and related adjustments to the provision for income taxes.

The unaudited pro forma information is provided for illustrative purposes only. It does not purport to represent what the consolidated results of operations would have been had the Blackstone Transaction occurred on the date indicated above, nor does it purport to project the consolidated results of operations for any future period or as of any future date.

	Six months ended July 1, 2007	Six months ended June 25, 2006
Net sales	\$ 742,450	\$ 679,599
(Loss) earnings before interest and taxes	\$ (20,436)	\$ 51,449
Net loss	\$ (116,826)	\$ (45,994)

Pro forma depreciation and amortization expense included above was \$19,855 for the six months ended July 1, 2007 and \$20,847 for the six months ended June 25, 2006.

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Included in (loss) earnings before interest and taxes in the pro forma information above for the six months ended July 1, 2007 are the following material charges:

	Six months ended July 1, 2007
Flow through of fair value of the inventories over manufactured cost as of April 2, 2007	\$ 35,933
Merger related costs	49,129
Stock based compensation related to the vesting of options due to the Blackstone Transaction	8,373
Impact on loss before interest and taxes	<u>\$ 93,435</u>

**2. Interim Financial Statements**

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the Company's financial position as of July 1, 2007, and the results of operations and cash flows for the Predecessor for the period from January 1, 2007 to April 2, 2007 and for the Successor from the period from April 2, 2007 to July 1, 2007. The results of operations are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes of the Predecessor for the year ended December 31, 2006.

**3. Acquisition**

Acquisition of the Food Products Business of The Dial Corporation

On March 1, 2006, the Company acquired certain assets and assumed certain liabilities of the food products business (the "Armour Business") of The Dial Corporation for an initial purchase price of \$183 million in cash. The assets acquired include inventory, a production facility, machinery and equipment, contract rights and certain intangible assets including trademarks and licenses. The liabilities assumed include a post-retirement medical benefit for certain employees, vacation pay liabilities and severance liabilities. According to the purchase agreement, the purchase price was to be increased dollar for dollar after the closing date if the value of inventory included with the Armour Business at closing exceeded a specified target or decreased dollar for dollar if the value of the inventory at closing was less than such target. Based upon the final value of the inventory, the Company paid to The Dial Corporation \$2,271 in December 2006, which was recorded as additional purchase consideration.

The acquisition of the Armour Business has complemented the Company's existing product lines provide growth opportunities and scale. The Armour Business is a manufacturer, distributor and marketer of products in the canned meats category. Primarily all of the products are produced at the manufacturing facility located in Ft. Madison, Iowa, which was acquired in the transaction. Products are sold under the Armour brand name as well as private-label and certain co-pack arrangements. The Armour Business offers products in twelve of the fifteen segments within the canned meat category, including Vienna sausage, potted meat, and sliced dried beef.

The acquisition of the Armour Business was accounted for under the purchase method of accounting. Accordingly, the results of the Armour Business are included in the consolidated financial statements from the acquisition date. The Armour Business results of operations and assets are included in the dry foods segment.

The cost of the Armour Business consists of:

Purchase price	\$ 185,271
Acquisition costs	3,937
Total cost of acquisition	<u>\$ 189,208</u>

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Portions of the purchase price, including intangible assets, were identified and valued by independent appraisers utilizing proven valuation procedures and techniques. The other current asset is the value the Company ascribed to the services performed by Dial under a transition services agreement that expired June 28, 2006. The value was based upon the estimated cost of providing such services and was expensed over the 120 days of the agreement (through June 28, 2006). The following table summarizes the final allocation of the total cost of the Armour acquisition to the assets acquired and liabilities assumed:

Assets acquired:	
Plant assets	\$ 47,376
Inventories	41,531
Other current asset	2,000
Tradenames	39,000
Recipes and formulas	5,000
Private label customer relationships	20,000
Goodwill	43,767
Fair value of assets acquired	<u>198,674</u>
Liabilities assumed	
Other accrued liabilities	2,210
Postretirement benefit liability	7,256
Total cost of acquisition	<u>\$ 189,208</u>

The value assigned to total intangible assets amounted to \$107,767. Of the total intangible assets, \$5,000 is assigned to recipes and formulas, which are being amortized over 5 years and \$20,000 is assigned to private label customer relationships, which are being amortized over seven years. In addition, \$39,000 is assigned to tradenames that are not subject to amortization. Goodwill, which is not subject to amortization, amounted to \$43,767. All of the intangible assets acquired in the transaction are recorded within the dry foods segment and will result in approximately \$103 million of tax deductible goodwill and intangible assets.

In accordance with the requirements of the purchase method of accounting for acquisitions, inventories as of March 1, 2006 were valued at fair value (net realizable value, which is defined as estimated selling prices less the sum of (a) costs of disposal and (b) a reasonable profit allowance for the selling effort of the acquiring entity) which in the case of finished products was \$4,580 higher than Dial's historical manufacturing cost and in the case of work-in-progress was \$180 higher than Dial's historical manufacturing cost. The Company's cost of products sold for the six months ended June 25, 2006 includes a pre-tax charge of \$4,570 related to the flow through of the increase in fair value.

Pro forma Information

The following schedule includes consolidated statements of operations data for the unaudited pro forma results for the six months ended June 25, 2006 as if the Armour Business had been acquired as of the beginning of fiscal 2006. The pro forma information includes the actual results with pro forma adjustments for the change in interest expense related to the additional borrowings to fund the acquisition, purchase accounting adjustments resulting in changes to depreciation expense and related adjustments to the provision for income taxes.

The unaudited pro forma information is provided for illustrative purposes only. It does not purport to represent what the consolidated results of operations would have been had the Armour Business been acquired on the date indicated above, nor does it purport to project the consolidated results of operations for any future period or as of any future date.

	Six months ended <u>June 25, 2006</u>
Net sales	\$ 709,393
Earnings before interest and taxes	\$ 52,191
Net earnings (loss)	\$ (5,070)

Pro forma depreciation and amortization expense included above was \$22,306.

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Included in earnings before interest and taxes in the pro forma information above for the six months ended June 25, 2006 are the following material charges:

	Six months ended <u>June 25, 2006</u>
Flow through of fair value of the Armour Business inventories over manufactured cost as of March 1, 2006	\$ 4,570
Stock based compensation expense	<u>1,415</u>
Impact on earnings before interest and taxes	<u>\$ 5,985</u>

**4. Restructuring and Impairment Charges**

**Predecessor**

**Frozen Food Segment**

*Omaha, Nebraska Production Facility*

On April 7, 2004, the Company made and announced its decision to permanently close its Omaha, Nebraska production facility, as part of the Company's plan of consolidating and streamlining production activities after the Aurora Merger. Production from the Omaha plant, which manufactured Swanson frozen entree retail products and frozen foodservice products, ceased in December 2004 and has been relocated to the Company's Fayetteville, Arkansas and Jackson, Tennessee production facilities.

Activities related to the closure of the plant were completed in the first quarter of 2005 and resulted in the elimination of 411 positions. From the announcement in April 2004 through July 1, 2007, we recorded restructuring charges totaling \$19.6 million, pertaining to our decision to permanently close the Omaha, Nebraska production facility. The charges incurred have been included in Other expense (income), net line in the Consolidated Statement of Operations. All such charges are reported under the frozen foods business segment. During the second quarter of 2007, the plant and remaining assets were sold for \$2.2 million.

*Erie, Pennsylvania Production Facility*

On April 29, 2005, the Company's board of directors approved a plan to permanently close its Erie, Pennsylvania production facility, as part of the Company's plan of consolidating and streamlining production activities after the Aurora Merger. Production from the Erie plant, which manufactured Van de Kamp's and Mrs. Paul's frozen seafood products and Aunt Jemima frozen breakfast products, has been relocated primarily to the Company's Jackson, Tennessee production facility. Activities related to the closure of the plant were completed in 2006 and resulted in the elimination of approximately 290 positions. Employee termination activities commenced in July 2005 and were substantially completed by the end of the first quarter of 2006. From the date of the announcement, through the fourth quarter of 2006, the company incurred charges totaling \$7.3 million related to the shutdown of the Erie, Pennsylvania production facility. These charges incurred have been included in the Other expense (income), net line in the Consolidated Statement of Operations. All such charges are reported under the frozen foods business segment. During the fourth quarter of 2006, the plant and any remaining equipment was sold for \$1.8 million.

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**5. Stock-Based Compensation Expense**

**2007 Peak Holdings Equity Compensation Plan**

Peak Holdings, the ultimate parent of the Company, has adopted an equity compensation plan providing for the issuance of up to 10,000 profits interest units in Peak Holdings. Pursuant to the equity plan, certain officers, employees, managers and directors are eligible to receive grants of the profits interest units. Except as otherwise provided by the plan administrator, 25% of the units shall time vest annually over five years from the effective date of the grant which was April 2, 2007, and 50% of the units vest annually over five years on April 2, based upon annual and cumulative earnings performance. The remaining 25% of the units will vest upon the occurrence of a liquidity event, as defined, in which the original investors in the Blackstone Transaction receive a stipulated internal rate of return on their investment.

As of July 1, 2007, 8,041 of the profits interest units have been issued.

The following table summarizes stock-based compensation expense related to 2007 Peak Holdings Equity Compensation Plan and the Predecessor's employee stock options and employee stock purchases under SFAS No. 123(R):

	Three months ended			Six months ended		
	Successor	Predecessor		Successor	Predecessor	
	Three months ended July 1, 2007	April 2, 2007	Three months ended June 25, 2006	Three months ended July 1, 2007	January 1, 2007 to April 2, 2007	Six months ended June 25, 2006
Cost of products sold	\$ 4	\$ 1,172	\$ 41	\$ 4	\$ 1,230	\$ 82
Marketing and selling expenses	23	2,931	113	23	3,071	227
Administrative expenses	149	3,935	132	149	4,126	1,678
Research and development expenses	2	335	14	2	351	28
Pre-tax stock-based compensation expense	\$ 178	\$ 8,373	\$ 300	\$ 178	\$ 8,778	\$ 2,015
Income tax-benefit	-	-	(2)	-	(2)	(4)
Net stock-based compensation expense	\$ 178	\$ 8,373	\$ 298	\$ 178	\$ 8,776	\$ 2,011

**6. Other Expense (Income), net**

	Three months ended			Six months ended		
	Successor	Predecessor		Successor	Predecessor	
	Three months ended July 1, 2007	April 2, 2007	Three months ended June 25, 2006	Three months ended July 1, 2007	January 1, 2007 to April 2, 2007	Six months ended June 25, 2006
Other expense (income) consists of:						
Restructuring and impairment charges	\$ 13	\$ -	\$ 544	\$ 13	\$ 46	\$ 995
Amortization of intangibles/other assets	1,911	-	2,390	1,911	1,911	3,593
Merger related costs	-	49,129	-	-	49,129	-
Royalty expense (income), net and other	(24)	-	82	(24)	(44)	138
Total other expense	\$ 1,900	\$ 49,129	\$ 3,016	\$ 1,900	\$ 51,042	\$ 4,726

**Restructuring charges.** As described in Note 4, the company incurred costs and asset write downs in connection with the planned shutdown of the Omaha, Nebraska and Erie, Pennsylvania facilities.

**Merger related costs.** As discussed in Note 1, the Predecessor incurred certain costs immediately before the Blackstone Transaction. The costs included \$35.5 million related to the cash tender offer for the 8 ¼% Senior Subordinated Notes, \$12.9 million related to the termination of certain contracts, and \$0.7 million related to payroll taxes for a total of \$49.1 million.

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**7. Inventories**

	<u>Successor</u>	<u>Predecessor</u>
	July 1, 2007	December 31, 2006
Raw materials, containers and supplies	\$ 39,744	\$ 34,829
Finished product	126,326	146,206
	166,070	181,035
Reserves	(1,504)	(2,735)
Total	<u>\$ 164,566</u>	<u>\$ 178,300</u>

Reserves represent amounts necessary to adjust the carrying value of inventory to the lower of cost or net realizable value, including any costs to sell or dispose.

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

In connection with the Blackstone Transaction, inventories are required to be valued at fair value, which the Company has preliminarily estimated at \$37.0 million higher than the Predecessor's historical manufacturing cost. As of July 1, 2007, \$1.1 million remains in finished product inventory, which will be charged to cost of products sold in the third quarter 2007 when the inventories will be sold.

**8. Goodwill and Other Assets**

Goodwill

	<u>Predecessor</u>			
	December 31, 2006	Adoption of FIN 48	Goodwill due to Blackstone Merger	July 1, 2007
Dry Foods	\$ 334,494	\$ 1,070	\$ (335,564)	\$ -
Frozen Foods	67,667	-	(67,667)	-
Total	<u>\$ 402,161</u>	<u>\$ 1,070</u>	<u>\$ (403,231)</u>	<u>\$ -</u>

  

	<u>Successor</u>		
	April 2, 2007	Other Adjustment	July 1, 2007
Dry Foods	768,652	(666)	\$ 767,986
Frozen Foods	491,438	(426)	491,012
Total	<u>\$ 1,260,090</u>	<u>\$ (1,092)</u>	<u>\$ 1,258,998</u>

**Predecessor** - As discussed in Note 16, the adoption of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes: An Interpretation of Statement of Financial Accounting Standards ("SFAS") Statement No. 109" ("FIN 48"), resulted in a \$1,070 increase to goodwill acquired in the Pinnacle Transaction.

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**Successor** - SFAS No. 142, "Goodwill and Other Intangible Assets," establishes accounting and reporting for business combinations. It provides that goodwill and other intangible assets with indefinite lives will not be amortized, but will be tested for impairment on an annual basis or more often when events indicate. SFAS No. 141 "Business Combinations" requires all business combinations be accounted for using the purchase method of accounting. The Successor has accounted for the Blackstone Transaction in accordance with these standards. The preliminary purchase price allocation for the Blackstone Transaction resulted in \$1,260.1 million in goodwill. The purchase price allocation by segment resulted in \$768.7 million in Dry Foods and \$491.4 million in Frozen Foods.

As discussed in Note 16, the application of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes: An Interpretation of Statement of Financial Accounting Standards ("SFAS") Statement No. 109" ("FIN 48"), and the expiration of certain statutes of limitation relating to certain tax returns for prior years during the quarter ended July 1, 2007 resulted in a \$1,092 decrease to goodwill.

**Other Assets**

	<u>Successor</u>	<u>Predecessor</u>
	July 1, 2007	December 31, 2006
Amortizable intangibles, net of accumulated amortization of \$1,911 and \$15,683, respectively	\$ 26,527	\$ 30,348
Deferred financing costs, net of accumulated amortization of \$5,387 and \$18,405, respectively	34,398	26,049
Interest rate swap (see Note 11)	10,081	-
Total	<u>\$ 71,006</u>	<u>\$ 56,397</u>

**Predecessor** - Amortizable intangible assets relate primarily to recipes acquired in the Aurora Merger, which have been assigned a five year estimated useful life for amortization purposes, and recipes and private label customer relationships acquired with the acquisition of the Armour business, which have been assigned five year and seven year estimated useful lives, respectively, for amortization purposes. Amortization expense during the period January 1, 2007 to April 2, 2007 was \$1,911. Amortization expense during the six months ended June 25, 2006 was \$3,593.

Deferred financing costs relate to the Senior Secured Credit Facilities and senior subordinated notes. Amortization expense during the period January 1, 2007 to April 2, 2007 was \$1,977. Amortization expense during the six months ended June 25, 2006 was \$3,259. Deferred financing costs and the resulting accumulated amortization, net, of \$24.1 million was written off by the Predecessor just prior to the Blackstone Transaction.

**Successor** - Based on the preliminary purchase price allocation related to the Blackstone Merger, we have assigned a value of \$11,459 and \$16,979 to recipes and private label customer relationships. Amortization during the three months ended July 1, 2007 was \$1,911. Estimated amortization expense for each of the next five years is as follows: remainder of 2007 - \$3,821, 2008 - \$7,642, 2009 - \$4,727, 2010 - \$3,880, 2011 - \$3,049, thereafter - \$3,408.

Deferred financing costs, which relate to the Senior Secured Credit Facility, Senior Notes and Senior Subordinated Notes entered into in connection with the Blackstone Transaction amounted to \$39,785. Amortization during the three months ended July 1, 2007 was \$5,387.

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**9. Debt and Interest Expense**

	Successor July 1, 2007	Predecessor December 31, 2006
<u>Long-term debt</u>		
Successor		
- Senior secured credit facility - term loan	\$ 1,250,000	\$ -
- 9 1/4% Senior notes	325,000	-
- 10 5/8% Senior subordinated notes	250,000	-
- Capital lease obligations	1,190	-
Predecessor		
- Senior secured credit facility - term loan	-	521,187
- 8 1/4% Senior subordinated notes	-	394,000
- Plus: unamortized premium on senior subordinated notes	-	5,360
- Capital lease obligations	-	206
Total debt	1,826,190	920,753
Less: current portion of long-term obligations	12,749	123
Total long-term debt	<u>\$ 1,813,441</u>	<u>\$ 920,630</u>

Interest expense

	Three months ended		
	Successor	Predecessor	
	Three months ended July 1, 2007	Three months ended April 2, 2007	Three months ended June 25, 2006
	July 1, 2007	April 2, 2007	June 25, 2006
Third party interest expense	\$ 45,287	\$ 18,862	\$ 22,666
Related party interest expense	-	-	47
Interest rate swap gains (Note 11)	(955)	-	(843)
	<u>\$ 44,332</u>	<u>\$ 18,862</u>	<u>\$ 21,870</u>
		Six months ended	
	Successor	Predecessor	
	Three months ended July 1, 2007	January 1, 2007 to April 2, 2007	Six months ended June 25, 2006
Third party interest expense	\$ 45,287	\$ 38,654	\$ 42,634
Related party interest expense	-	9	90
Interest rate swap (gains) losses (Note 11)	(955)	416	(1,332)
	<u>\$ 44,332</u>	<u>\$ 39,079</u>	<u>\$ 41,392</u>

**Predecessor-** In November 2003, the Predecessor entered into a \$675.0 million Credit Agreement (“Senior Secured Credit Facilities”) with JPMorgan Chase Bank (a related party of JPMorgan Partners, LLC as noted in Note 13) and other financial institutions as lenders, which provides for a \$545.0 million seven-year term loan B facility, of which \$120.0 million was made available on November 25, 2003 and \$425.0 million was made available as a delayed draw term loan on the closing date of the Aurora Merger on March 19, 2004. Concurrently with the acquisition of the Armour Business but effective as of February 14, 2006, the Company entered into an Amendment No. 4 and Agreement to the Senior Secured Credit Facilities (“Amendment No. 4”). Among other things, Amendment No. 4 approved the Armour acquisition and provided for the making of \$143.0 million of additional tack-on term loans to fund a portion of the acquisition. The Senior Secured Credit Facilities also provided for a six-year \$130.0 million revolving credit facility, of which up to \$65.0 million was made available on November 25, 2003, and the remaining \$65.0 million was made available on the closing date of the Aurora Merger on March 19, 2004. There were no borrowings outstanding under the revolver as of December 31, 2006.

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As of December 31, 2006, \$2,748 of our term loan was owed to affiliates of JPMorgan Chase Bank.

A commitment fee of 0.50% per annum was applied to the unused portion of the revolving credit facility. For the one day ended April 2, 2007, the weighted average interest rate on the term loan was 7.36%. There were no borrowings under the revolving credit facility during 2007. As of April 2, 2007, the Eurodollar interest rate on the term loan facility was 7.36% and the commitment fee on the undrawn revolving credit facility was 0.50%. For the six months ended June 25, 2006, the weighted average interest rate on the term loan was 7.82%, and on the revolving credit facility was 9.62%. As of June 25, 2006, the Eurodollar interest rate on the term loan facility was 7.10% and the commitment fee on the undrawn revolving credit facility was 0.50%.

In connection with the Blackstone Transaction described in Note 1, the Predecessor's Senior Secured Credit Facilities, were paid in full.

The Company paid a commission on the face amount of all outstanding letters of credit drawn under the Senior Secured Credit Facilities at a per annum rate equal to the Applicable Margin then in effect with respect to Eurodollar loans under the revolving credit loan facility minus the fronting fee (as defined). A fronting fee equal to 1/4% per annum on the face amount of each letter of credit is payable quarterly in arrears to the issuing lender for its own account. We also pay a per annum fee equal to 1/2% on the undrawn portion of the commitments in respect of the revolving credit facility. Total letters of credit issuable under the facilities could not exceed \$40,000. As of December 31, 2006 we had utilized \$9,222 of the revolving credit facility for letters of credit. Of the \$130,000 revolving credit facility available, as of December 31, 2006, we had an unused balance of \$120,778, available for future borrowings and letters of credit, of which a maximum of \$30,778 was available for letters of credit.

In November 2003 and February 2004, the Company issued \$200.0 million and \$194.0 million, respectively, 8.25% senior subordinated notes. The February 2004 notes resulted in gross proceeds of \$201.0 million, including premium. The terms of the February 2004 notes were the same as the November 2003 notes and were issued under the same indenture.

On March 8, 2007, the Predecessor commenced a cash tender offer to purchase any and all of the outstanding 8.25% Senior Subordinated Notes due 2013 (the "Existing Notes") of the Company, and a related consent solicitation to amend the indenture pursuant to which the Existing Notes were issued. The tender offer and consent solicitation were made in connection with the Blackstone Transaction. The tender offer and consent solicitation were made upon the terms and conditions set forth in an Offer to Purchase and Consent Solicitation Statement dated March 8, 2007 and the related Consent and Letter of Transmittal. The total cost of the cash tender offer for the Existing Notes was \$35.5 million and was recorded as a charge in the Other Expense (Income), net line of the Consolidated Statement of Operations of the Predecessor immediately before the Blackstone Transaction.

**Successor** - As part of the Blackstone Transaction as described in Note 1, Peak Finance LLC entered into a \$1,375.0 million credit agreement (the "Credit Agreement") in the form of (i) Term Loans in an initial aggregate amount of \$1,250.0 million ("Senior Secured Credit Facility") and (ii) Revolving Credit Commitments in the initial aggregate amount of \$125.0 million (the "Revolving Credit Facility"). The term loan matures April 2, 2014. The first scheduled payment for the term loan is in September 2007. The Revolving Credit Facility matures April 2, 2013. As of July 1, 2007, there were no borrowings under the Revolving Credit Facility. Peak Finance LLC merged with and into PFF on April 2, 2007 at the closing of the Blackstone Transaction.

Our borrowings under the Senior Secured Credit Facility bear interest at a floating rate and are maintained as base rate loans or as Eurodollar loans. Base rate loans bear interest at the base rate plus the applicable base rate margin, as defined in the Senior Secured Credit Facility. The base rate is defined as the higher of (i) the prime rate and (ii) the Federal Reserve reported overnight funds rate plus 1/2 of 1%. Eurodollar loans bear interest at the adjusted Eurodollar rate, as described in the Senior Secured Credit Facility, plus the applicable Eurodollar rate margin.

The applicable margins with respect to our Revolving Credit Facility will vary from time to time in accordance with the terms thereof and agreed upon pricing grids based on our leverage ratio as defined the Credit Agreement. The applicable rate with respect to the Senior Secured Credit Facility and the Revolving Credit Facility is currently:

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<u>Applicable Rate (per annum)</u>				
Eurocurrency Rate for Revolving Loans and Letter of Credit Fees	Base Rate for Revolving Loans	Commitment Fees Rate	Eurocurrency Rate for Term Loans	Base Rate for Term Loans
2.75%	1.75%	0.50%	2.75%	1.75%

The obligations under the Credit Agreement are unconditionally and irrevocably guaranteed by each of our direct or indirect domestic subsidiaries (collectively, the "Guarantors"). In addition, the Credit Agreement is collateralized by first priority or equivalent security interests in (i) all the capital stock of, or other equity interests in, each direct or indirect domestic subsidiary of the Company and 65% of the capital stock of, or other equity interests in, each direct foreign subsidiary of the Company, or any of its domestic subsidiaries and (ii) certain tangible and intangible assets of the Company and the Guarantors (subject to certain exceptions and qualifications).

A commitment fee of 0.50% per annum is applied to the unused portion of the Revolving Credit Facility. For the three months ended July 1, 2007, the weighted average interest rate on the term loan is 8.10%. The company borrowed \$10 million of the Revolving Credit Facility which was subsequently paid back during the second quarter. For the three months ended July 1, 2007, the weighted average interest rate on the Revolving Credit Facility is 10.0%. As of July 1, 2007, the Eurodollar interest rate on the term loan facility is 8.11% and the commitment fee on the undrawn revolving credit facility is 0.50%.

The Company pays a fee for all outstanding letters of credit drawn against our Revolving Credit Facility at an annual rate equivalent to the Applicable Rate then in effect with respect to Eurodollar loans under the Revolving Credit Facility, less 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 agreement cannot exceed \$25.0 million. As of July 1, 2007, we had utilized \$11,317 of the Revolving Credit Facility for letters of credit. Of the \$125,000 revolving credit facility available, we had an unused balance of \$113,683 available for future borrowing and letters of credit, of which \$13,683 can be used for letters of credit.

On April 2, 2007, as part of the Blackstone Transaction described in Note 1, the company issued \$325.0 million 9 ¼% Senior Notes (the "Senior Notes") due 2015, and \$250.0 million 10 5/8% Senior Subordinated Notes (the "Senior Subordinated Notes") due 2017. The Senior Notes are general unsecured obligations of the Company, subordinated in right of payment to all existing and future senior secured indebtedness of the Company, and guaranteed on a full, unconditional, joint and several basis by the Company's wholly-owned domestic subsidiaries. The Senior Subordinated Notes are general unsecured obligations of the Company, subordinated in right of payment to all existing and future senior indebtedness of the Company, and guaranteed on a full, unconditional, joint and several basis by the Company's wholly-owned domestic subsidiaries. See Note 17 for Guarantor and Nonguarantor Financial Statements.

The Company may redeem some or all of the senior notes at any time prior to April 1, 2011, and some or all of the senior subordinated notes at any time prior to April 1, 2012, in each case at a price equal to 100% of the principal amount of 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 note; and (2) the excess, if any, of (a) the present value at such Redemption Date of (i) the redemption price of such Senior Note at April 1, 2011 or Senior Subordinated Note at April 1, 2012, plus (ii) all required interest payments due on such Senior Note through April 1, 2011 or Senior Subordinated Note through April 1, 2012 (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 note.

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The Company may redeem the Senior Notes or the Senior Subordinated Notes at the redemption prices listed below, if redeemed during the twelve-month period beginning on April of each of the years indicated below:

<u>Senior Notes</u>	
<u>Year</u>	<u>Percentage</u>
2011	104.625%
2012	102.313%
2013 and thereafter	100.000%

<u>Senior Subordinated Notes</u>	
<u>Year</u>	<u>Percentage</u>
2012	105.313%
2013	103.542%
2014	101.771%
2015 and thereafter	100.000%

In addition, until April 1, 2010, we may redeem up to 35% of the aggregate principal amount of Senior Notes or Senior Subordinated Notes issued by us at a redemption price equal to 100% of the aggregate principal amount thereof, plus a premium equal to the rate per annum on the Senior Notes or Senior Subordinated Notes, plus accrued and unpaid interest and Additional Interest, if any, to the Redemption Date, subject to the right of Holders of Senior Notes or Senior Subordinated 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 it from one or more Equity Offerings; *provided* that (i) at least 50% of the aggregate principal amount of Senior Notes or Senior Subordinated Notes originally issued under the Indenture remains outstanding immediately after the occurrence of each such redemption; and (ii) each such redemption occurs within 90 days of the date of closing of each such Equity Offering.

The Company and its subsidiaries, affiliates or significant shareholders (including The Blackstone Group L.P. and its affiliates) may from time to time, in their sole discretion, purchase, repay, redeem or retire any of the Company's outstanding debt or equity securities (including any publicly issued debt or equity securities), in privately negotiated or open market transactions, by tender offer or otherwise.

#### **10. Pension and Retirement Plans**

As of July 1, 2007, the Company maintains a noncontributory defined benefit pension plan that covers substantially all eligible union employees and provides benefits generally based on years of service and employees' compensation. The Company's pension plan is funded in conformity with the funding requirements of applicable government regulations. As disclosed in the Company's Consolidated Financial Statements for the fiscal year ended December 31, 2006, the Company expects to make a contribution of \$650 during the current fiscal year.

The Company also maintains a postretirement benefits plan that provides health care and life insurance benefits to eligible retirees, covers most U.S. employees and their dependents and is self-funded. Employees who have 10 years of service after the age of 45 and retire are eligible to participate in the postretirement benefit plan. Upon amendments that became effective on May 23, 2004, the Company's net out-of-pocket costs for postretirement health care benefits was substantially reduced as certain retired employees are now required to pay 100% of the monthly premium cost, as calculated by our insurance administrator.

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The components of net periodic benefit cost, including the expense related to the employees of the Armour Business from the date of acquisition, included in the Consolidated Statements of Operations are as follows:

**Pension Benefits**

	Three months ended			Six months ended		
	Successor	Predecessor		Successor	Predecessor	
	Three months ended July 1, 2007	Three months ended April 2, 2007	Three months ended June 25, 2006	Three months ended July 1, 2007	January 1, 2007 to April 2, 2007	Six months ended June 25, 2006
Service cost	\$ 496	\$ -	\$ 555	\$ 496	\$ 472	\$ 1,019
Interest cost	980	-	899	980	980	1,788
Expected return on assets	(1,083)	-	(1,059)	(1,083)	(1,092)	(2,087)
Amortization of:						
Loss	-	-	24	-	-	64
Net periodic benefit cost	<u>\$ 393</u>	<u>\$ -</u>	<u>\$ 419</u>	<u>\$ 393</u>	<u>\$ 360</u>	<u>\$ 784</u>

**Other Postretirement Benefits**

	Three months ended			Six months ended		
	Successor	Predecessor		Successor	Predecessor	
	Three months ended July 1, 2007	Three months ended April 2, 2007	Three months ended June 25, 2006	Three months ended July 1, 2007	January 1, 2007 to April 2, 2007	Six months ended June 25, 2006
Service cost	\$ 246	\$ -	\$ 253	\$ 246	\$ 246	\$ 297
Interest cost	132	-	158	132	132	198
Amortization of:						
Loss	-	-	2	-	-	4
Unrecognized prior service cost (credit)	-	-	(85)	-	(84)	(169)
Net periodic benefit cost	<u>\$ 378</u>	<u>\$ -</u>	<u>\$ 328</u>	<u>\$ 378</u>	<u>\$ 294</u>	<u>\$ 330</u>

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act expanded Medicare to include, for the first time, coverage for prescription drugs and a federal subsidy to sponsors of certain retiree medical plans. The Company sponsors medical programs for certain of its U.S. retirees and expects that this legislation may eventually reduce the costs for some of these programs. However, due to the relatively small number of participants, the measure of the net periodic post retirement benefit costs does not reflect any amount associated with the subsidy. Therefore, this legislation has not had a material impact on the Company's consolidated financial statements.

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**11. Financial Instruments**

The Company may utilize derivative financial instruments to enhance our ability to manage risks, including interest rate, certain commodities and foreign currency, which exist as part of ongoing business operations. We do not enter into contracts for speculative purposes, nor are we a party to any leveraged derivative instrument. We monitor the use of derivative financial instruments through regular communication with senior management and third party consultants as well as the utilization of written guidelines.

Interest Rate Risk

The Company relies primarily on bank borrowings to meet our funding requirements. We utilize interest rate swap agreements or other derivative instruments to reduce the potential exposure to interest rate movements and to achieve a desired proportion of variable versus fixed rate debt. We will recognize the amounts that we pay or receive on hedges related to debt as an adjustment to interest expense.

The Predecessor had entered into interest rate swap agreements with counterparties to effectively change a portion of the floating rate payments on its senior secured credit facilities into fixed rate payments. As of the date of the Blackstone Transaction, one swap agreement remained outstanding. The agreement was terminated as part of the Blackstone Transaction at a cost of \$2,475. The difference between the mark-to-market adjustment at April 1, 2007 (\$2,299) and the cash settlement was recorded as interest expense in the Consolidated Statement of Operations during the quarter ended July 1, 2007. As of December 31, 2006, the Predecessor had two interest rate swaps in place with a net fair value at the time of a loss of \$847, which was recorded as a long term liability (\$1,882) and other current asset (\$1,035) in the Consolidated Balance Sheet.

After the Blackstone Transaction was completed, the Successor entered into a new interest rate swap agreement and an interest rate collar agreement.

In accordance with SFAS No. 133 (as amended), “*Accounting for Derivative Instruments and Hedging Activities*”, the Company has designated the interest rate swap as a cash flow hedge of the risk of changes attributable to interest rate risk in the Company’s first previously unhedged LIBOR-indexed interest payments made each quarter until the maturity date of the swap that, in the aggregate for each period, are interest payments on an amount of debt principal corresponding to the outstanding swap notional amount of the Company’s then-existing LIBOR-based floating rate debt that reprices on and then closest following the second day of each January, April, July, and October (the hedged transactions). The interest rate swap contains the following terms:

- Notional amount: \$976,250 amortizing to \$63,651
- Fixed rate: 4.958%
- Index: 3 mo. USD-LIBOR-BBA
- Effective Date: April 02, 2007
- Maturity Date: April 02, 2012

In accordance with SFAS No. 133, the interest rate collar has also been designated as a cash flow hedge of the changes in the forecasted floating-rate interest payments attributable to changes in 3-month USD-LIBOR-BBA above 5.50% and below 4.39% (the “strike rates”) on the first previously unhedged 3-month USD-LIBOR-BBA interest payments on the Company’s then-existing 3-month USD-LIBOR-BBA-based debt having a principal amount corresponding to the outstanding notional amount of the collar that resets on the second day of each January, April, July, and October until the maturity date of the collar. The collar has an effective date of April 2, 2008 and a maturity date of April 2, 2012. Should 3-month USD-LIBOR-BBA fall below 4.39% on a rate reset date during the period from April 2, 2008 to April 2, 2012, the Company will pay the Counterparty the amount equal to the outstanding notional amount of the collar multiplied by a spread [equalling 4.39% minus 3-month USD-LIBOR-BBA] multiplied by the number of days in the period divided by 360. Should 3-month USD-LIBOR-BBA rise above 5.50% on a rate reset date during the period from April 2, 2008 to April 2, 2012, the Counterparty will pay the Company the amount equal to the outstanding notional amount on the collar multiplied by a spread [equalling 3-month USD-LIBOR-BBA minus 5.50%] multiplied by the number of days in the period divided by 360.

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As of July 1, 2007, the fair value of the interest rate swap contract was a gain of \$10,081 which is recorded in the Other assets, net category of the Consolidated Balance Sheet. The offset was recorded as a gain in Accumulated Other Comprehensive Income (\$9,126, \$5,795 net of income taxes) and Interest Expense (\$955).

Commodity Risk

The Predecessor had entered into various natural gas swap transactions with JP Morgan Chase Bank (a related party of the Predecessor) to lower the Company's exposure to the price of natural gas. As of April 1, 2007, the trades in effect matured from April through June 2007 and had various notional quantities of MMBTU's per month. The Company paid a fixed price ranging from \$7.16 to \$7.33 per MMBTU, with settlements monthly.

As of December 31, 2006 the fair value of the natural gas swaps was a loss of \$160, and was recorded in accrued liabilities. The related offset was recorded as a loss and was recognized as an increase to cost of products sold.

After the Blackstone Transaction was completed, the Successor entered into new natural gas swap transactions to lower the Company's exposure to the price of natural gas. As of July 1, 2007 the trades in effect mature from November through December 2007 and had various notional quantities of MMBTU's per month. The Company paid a fixed price ranging from \$7.29 to \$8.42 per MMBTU, with settlements monthly.

As of July 1, 2007, the fair value of the natural gas swaps was a loss of \$79, and is recorded in accrued liabilities. The related offset is recorded as a loss and was recognized as an increase to cost of products sold.

Neither the Predecessor nor the Successor swap contracts were designated as hedges pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

Gains and losses on the natural gas swaps, which were recorded as a component of cost of products sold in the Consolidated Statement of Operations, are detailed below.

<u>Natural Gas Swaps</u>	Three months ended		
	Successor	Predecessor	
	Three months ended	Three months ended	
	July 1, 2007	April 2, 2007	June 25, 2006
Non-cash gain (loss)	\$ (124)	\$ -	\$ 30
Gain (loss) realized in cash	30	-	(300)
Net loss on natural gas swaps	<u>\$ (94)</u>	<u>\$ -</u>	<u>\$ (270)</u>
	Six months ended		
	Successor	Predecessor	
	Three months ended	January 1, 2007 to	Six months ended
	July 1, 2007	April 2, 2007	June 25, 2006
Non-cash gain (loss)	\$ (124)	\$ 205	\$ (389)
Gain (loss) realized in cash	30	(84)	(670)
Net gain (loss) on natural gas swaps	<u>\$ (94)</u>	<u>\$ 121</u>	<u>\$ (1,059)</u>

Foreign Exchange Risk

The Predecessor and Successor entered into various foreign currency exchange transactions to lower the Company's exposure to the exchange rate between the U.S. dollar and the Canadian dollar. Each agreement is based upon a notional amount in Canadian dollars, which is expected to approximate a portion of the amount of our Canadian subsidiary's U.S. dollar denominated purchases for the month. While the Predecessor had contracts outstanding during 2006, there were no outstanding contracts at December 31, 2006. The trades outstanding as of July 1, 2007 run through April 2012. We pay a fixed exchange rate of Canadian dollars per U.S. dollar, with settlements monthly. These swaps were not designated as hedges pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

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As of July 1, 2007, the fair value of the foreign currency exchange contracts was a loss of \$1,659 for which \$1,177 is recorded in Accrued liabilities in the Consolidated Balance Sheet, and \$482 is recorded in Other long-term liabilities. Gains and losses on the foreign currency exchange contracts, which were recorded as a component of cost of products sold in the Consolidated Statement of Operations, are detailed below.

<u>Foreign currency exchange contracts</u>	Three months ended		
	Successor	Predecessor	
	Three months ended	Three months ended	
	July 1, 2007	April 2, 2007	June 25, 2006
Non-cash loss	\$ (1,659)	\$ -	\$ (372)
Loss realized in cash	(254)	-	(225)
Net loss on foreign currency exchange contracts	<u>\$ (1,913)</u>	<u>\$ -</u>	<u>\$ (597)</u>

  

	Six months ended		
	Successor	Predecessor	
	Three months ended	January 1, 2007 to	Six months ended
	July 1, 2007	April 2, 2007	June 25, 2006
Non-cash loss	\$ (1,659)	\$ -	\$ (273)
Loss realized in cash	(254)	-	(225)
Net loss on foreign currency exchange contracts	<u>\$ (1,913)</u>	<u>\$ -</u>	<u>\$ (498)</u>

The Company utilizes irrevocable standby letters of credit with one-year renewable terms to satisfy workers' compensation self-insurance security deposit requirements. Prior to the Blackstone Transaction, the Predecessor's contract value of the outstanding standby letters of credit as of December 31, 2006 was \$7,846, which approximated fair value. As of December 31, 2006, we also utilized letters of credit in connection with the purchase of raw materials in the amount of \$1,376, which approximates fair value. After the Blackstone Transaction, the Successor's contract value of the outstanding standby letters of credit to satisfy workers' compensation self-insurance security deposits as of July 1, 2007 was \$9,971, which approximates fair value. As of July 1, 2007, we also utilized letters of credit in connection with the purchase of raw materials in the amount of \$1,346, which approximates fair value.

The Company is exposed to credit loss in the event of non-performance by the other parties to derivative financial instruments. All counterparties are at least "A-" rated or equivalent by Standard & Poor's and Moody's. Accordingly, we do not anticipate non-performance by the counterparties.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value. The estimated fair value of the Senior Secured Credit Facilities bank debt, the 9 1/4% senior notes, and the 10 5/8% senior subordinated notes that are classified as long term debt on the Consolidated Balance Sheet at July 1, 2007, was approximately carrying value.

**12. Commitments and Contingencies**

General

From time to time, the Company and its operations 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 should not have a material effect on the Company's financial condition, results of operations or cash flows.

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Litigation

*Employee Litigation - Indemnification of US Cold Storage*

On March 21, 2002, an employee at the Omaha, NE facility, died as the result of an accident while operating a forklift at a Company-leased warehouse facility. OSHA conducted a full investigation and determined that the death was the result of an accident and found no violations by the Company. On March 18, 2004, the Estate of the deceased filed suit in District Court of Sarpy County, Nebraska, Case No: CI 04-391, against the Company, the owner of the forklift and the leased warehouse, the manufacturer of the forklift and the distributor of the forklift. The Company, having been the deceased's employer, was named as a defendant for worker's compensation subrogation purposes only.

On May 18, 2004, the Company received notice from defendant, US Cold Storage, the owner of the leased warehouse, requesting the Company to accept the tender of defense for US Cold Storage in this case in accordance with the indemnification provision of the warehouse lease. The request has been submitted to the Company's insurance carrier for evaluation and the Company has been advised that the indemnification provision is not applicable in this matter and that Company should have no liability under that provision. Therefore, the Company believes that resolution of such matters will not result in a material impact on the Company's financial condition, results of operations or cash flows.

*R2 Appeal in Aurora Bankruptcy*

Prior to its bankruptcy filing, Aurora entered into an agreement with its prepetition lending group compromising the amount of certain fees due under its senior bank facilities (the "October Amendment"). One of the members of the bank group (R2 Top Hat, Ltd.) challenged the enforceability of the October Amendment during Aurora's bankruptcy by filing an adversary proceeding in U.S. Bankruptcy Court, District of Delaware, and by objecting to confirmation. The Bankruptcy Court rejected the lender's argument and confirmed Aurora's plan of reorganization. The lender then appealed from those orders of the Bankruptcy Court. In December 2006, the US District Court for the District of Delaware filed its Memorandum and Order affirming both (a) the February 20, 2004 Order of the Bankruptcy Court confirming debtor's First Amended Joint Reorganization Plan, and (b) the February 27, 2004 Order of the Bankruptcy Court granting debtor's motion for summary judgment and dismissing the adversary proceeding. R2 Top Hat, Ltd. has recently filed its Notice of Appeal to the 3rd Circuit Court of Appeals. On March 23, 2007, the Company and R2 Top Hat, Ltd. participated in court-ordered mediation. The settlement demand made by R2 Top Hat, Ltd. at the mediation was \$7.5 million. The Company did not counter and no settlement was reached. The case will continue to proceed through the appeal process with the parties preparing briefs and record for the Court of Appeals. It is too early to predict the outcome of the appeals. Included in the Company's accrued liabilities in the Consolidated Balance Sheet is \$20.1 million for this claim, which was assumed by us in the Aurora Merger.

*State of Illinois v. City of St. Elmo and Aurora Foods Inc.*

The Company is a defendant in an action filed by the State of Illinois regarding the Company's St. Elmo facility. Prior to the Aurora Merger, the Illinois Attorney General filed a complaint in County Court, Fayette County, Illinois seeking a restraining order prohibiting further discharges by the City of St. Elmo from its publicly owned wastewater treatment facility in violation of Illinois law and enjoining the Company from discharging its industrial waste into the City's treatment facility. The complaint also asked for fines and penalties associated with the City's discharge from its treatment facility and the Company's alleged operation of its production facility without obtaining a state environmental operating permit. Management believes the remedial actions it has taken to date and is continuing to implement will minimize any fines and penalties associated with this matter.

On August 30, 2004, an Interim Consent Order signed by all parties was signed and entered by the judge in the case whereby, in addition to a number of actions required of the City, the Company agreed to provide monthly discharge monitoring reports to the Illinois Environmental Protection Agency for six months and was allowed to continue discharging effluent to the City of St. Elmo. In September 2004, the Company met with representatives from the State of Illinois Environmental Protection Agency and the State Attorney General's Office and separately with the City of St. Elmo to inform them that the Company intended to install a pre-treatment system at our St. Elmo facility during the fourth quarter of 2004 and first quarter of 2005. The State issued the construction and operating permits to the Company and construction of the pre-treatment system has been completed. Testing has been completed and the system is fully operational.

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The State Attorney General had originally proposed a penalty of \$168 together with a consent decree. The Company responded listing the actions it had taken and related costs since merging with Aurora. The Company contends that there should not be any fine or penalty. On February 24, 2006, the State Attorney General advised the Company that its office would be willing to accept \$110 as penalty, together with a consent decree. A status conference with the party's attorneys and the Judge was held on May 2, 2006. The parties are complying with the Joint Discovery Schedule required by the Judge. As the Company believes no penalty will ultimately be due, no liability has been accrued at July 1, 2007.

The Company continues to discharge its effluent to the City. By letter dated February 7, 2007, the City informed the Company that its sewage facility had been taken off of restricted status by the State. The Company will vigorously defend any future effort to prevent it from discharging its industrial wastewater to the City. Although the Company believes it will be able to resolve this matter favorably, an adverse resolution may have a material impact on the Company's financial position, results of operations, or cash flows.

**American Cold Storage – North America, L/P. v. P.F. Distribution, LLC and Pinnacle Foods Group Inc.**

On June 26, 2005 the Company was served with a Summons and Complaint in the above matter, which was filed in the Circuit Court of Madison County, Tennessee. American Cold Storage ("ACS") operates a frozen storage warehouse and distribution facility (the "Facility") located in Madison County, Tennessee, near the Company's Jackson, Tennessee plant. In approximately April 2004, the Company entered into discussions with ACS to utilize the Facility. Terms were discussed, but no contract was ever signed. Shortly after shipping product to the Facility, the Company discovered that the Facility was incapable of properly handling the discussed volume of product and began reducing its shipments to the Facility. The original complaint seeks damages not to exceed \$1.5 million, together with associated costs. On May 3, 2006 our attorney received notice from counsel for ACS that it was increasing its damage claim in the suit from \$1.5 million to \$5.5 million. ACS will be required to provide specifics justifying the increase through ongoing discovery and the deposition of the President of ACS which was previously scheduled. It is too early to determine the likely outcome of this litigation. The discovery phase of the case has begun and the Company intends to vigorously defend against this claim. The Company has made an offer to settle the claim, which was subsequently rejected by ACS. The Company has reserved the offered amount in the Consolidated Balance Sheet as of July 1, 2007. The Company believes that resolution of such matters will not have a material impact on its financial condition, results of operations or cash flows.

**Gilster Mary Lee Corporation v. Pinnacle Foods**

In September 2006, Gilster Mary Lee Corporation ("Gilster"), the primary co-packer of our Duncan Hines products, filed suit against the Company alleging that monies were due to Gilster from the Company for a warehouse/handling fee under an existing contract. While certain of these fees are required by the contract, the calculation of the fees is the issue in dispute. Although the parties have initiated settlement discussions, it is uncertain, at this time, if any settlement is likely. The case is in the very early stages of discovery. The Company intends to vigorously defend against the warehouse/handling fee claim, but feels that it has adequately reserved for any potential claim that may ultimately become due under the contract. The Company believes that resolution of such matters will not have a material impact on its financial condition, results of operations or cash flows. However, if the Company's relationship with Gilster were to deteriorate, there could be a material impact on the Company's business.

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**13. Related Party Transactions**

**Predecessor**

**Management fees**

On November 25, 2003, the Company entered into a Management Agreement with JPMorgan Partners, LLC (“JPMP”) and J.W. Childs Associates, L.P. (“JWC”) whereby JPMP and JWC provide management, advisory and other services. The agreement calls for quarterly payments of \$125 to each of JPMP and JWC for management fees. In connection with the September 2004 default on the Company’s senior credit agreement and the resulting amendment, the payment of the management fees was suspended during the amendment period, which ended on the second business day following the date on which the Company delivered to the Administrative Agent financial statements for the fiscal quarter ending March 2006. For the period January 1, 2007 to April 1, 2007, management fees expensed and paid to JPMP and JWC were \$250. For the six months ended June 25, 2006, management fees expensed and paid to JPMP and JWC were \$250. The Company reimbursed JPMP and JWC for out-of-pocket expenses totaling \$7 during the period January 1, 2007 to April 1, 2007. The Company reimbursed JPMP and JWC for out-of-pocket expenses totaling \$27 during the six months ended June 25, 2006. The Management Agreement also stipulates that in connection with any acquisition transaction subsequent to the Pinnacle Transaction and Aurora Merger, there will be a transaction fee of ½% of the aggregate purchase price payable to each of JPMP and JWC, plus fees and expenses. In connection with the acquisition of the Armour Business, each of JPMP and JWC were paid a transaction fee of \$915. JPMP was also reimbursed for out of pocket expenses totaling \$4. These transaction fees are included in Acquisition costs in Note 3. In connection with the Blackstone Transaction, JPMP and JWC were each paid \$10.8 million. Also, in connection with the Blackstone Transaction, this agreement was cancelled effective with the change in control.

Also on November 25, 2003, the Company entered into an agreement with CDM Capital LLC, an affiliate of CDM Investor Group LLC, whereby CDM Capital LLC will receive a transaction fee of ½% of the aggregate purchase price of future acquisitions (other than the Pinnacle Transaction or the Aurora Merger), plus fees and expenses. In connection with the acquisition of the Armour Business, CDM Capital LLC was paid a transaction fee of \$915. This transaction fee is included in Acquisition costs in Note 3. In connection with the Blackstone Transaction, CDM Capital LLC was paid \$10.8 million. Also, in connection with the Blackstone Transaction, this agreement was cancelled effective with the change in control.

Certain ownership units of Crunch Equity Holding LLC were issued to CDM Investor Group LLC in connection with the acquisition of the Armour Business. The estimated fair value of the interests was \$1,415 and was included in administrative expenses for the six months ended June 25, 2006.

**Leases and Aircraft**

The Company leased office space owned by a party related to C. Dean Metropoulos, the Company’s former Chairman. The base rent for the office is \$87 annually. Rent expense was \$26 during the three months ended April 1, 2007, and \$51 for the six months ended June 25, 2006.

Beginning November 25, 2003, the Company began using an aircraft owned by a company indirectly owned by the former Chairman. In connection with the usage of the aircraft, the Company incurred net operating expenses of \$688 during the period January 1, 2007 to April 2, 2007. The Company incurred net operating expenses for the usage of aircraft of \$1,375 during the six months ended June 25, 2006. The Company also incurred direct costs totaling \$78 during the period January 1, 2007 to April 2, 2007, and \$59 during the six months ended June 25, 2006, that were both reimbursed to PFGI by the company that owns the aircraft.

Effective with the occurrence of the Blackstone Transaction, the contracts to lease the office space and aircraft were terminated. The Predecessor recorded a charge of \$6.3 million related to these contract terminations. The charge was recorded in the Consolidated Statement of Operations of the Predecessor immediately prior to the Blackstone Transaction.

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**Debt and Interest Expense**

For the period January 1, 2007 to April 2, 2007, fees and interest expense recognized in the Consolidated Statement of Operations for the debt to the related party, JPMorgan Chase Bank, amounted to \$9. For the six months ended June 25, 2006, fees and interest expense recognized in the Consolidated Statement of Operations for the debt to the related party, JPMorgan Chase Bank, amounted to \$90. See Note 9.

**Financial Instruments**

The Company had entered into transactions for derivative financial instruments with JPMorgan Chase Bank to lower its exposure to interest rates, foreign currency, and natural gas prices. During the period January 1, 2007 to April 2, 2007, the net cash paid by the Company for the settlement of financial instruments totaled \$84. During the six months ended June 25, 2006, the net cash paid by the Company for the settlement of financial instruments totaled \$407. See Note 11.

**Expenses of Major Shareholder**

As part of the Aurora Merger, the Company agreed to pay certain fees of the Bondholders Trust (as explained below), which owns approximately 43% of Crunch Equity Holding (LLC) (the former ultimate parent). The Bondholders Trust primarily consists of holders of Aurora's senior subordinated notes, which elected to receive equity interests in LLC as consideration in the Aurora Merger. The Company recognized in the Consolidated Statement of Operations for the six months ended June 25, 2006 \$100 in fees on behalf of the Bondholders Trust.

**Consulting Agreement**

During the first quarter of 2006, the Company entered into a consulting agreement with Mr. Evan Metropoulos, a former executive of PFGI and the brother of the Company's former Chairman, C. Dean Metropoulos. Mr. E. Metropoulos provided to the Company consulting services related to the integration of the Armour Business, which was acquired on March 1, 2006. As of the end of the second quarter of 2006, the work under the contract was substantially completed. For the six months ended June 25, 2006, payments made to Mr. E. Metropoulos under this agreement totaled \$12.

**Successor**

**Advisory Agreement**

At the closing of the Blackstone Transaction, the Company entered into an advisory agreement with an affiliate of The Blackstone Group pursuant to which such entity or its affiliates will provide certain strategic and structuring advice and assistance to us. In addition, under this agreement, affiliates of The Blackstone Group provide certain monitoring, advisory and consulting services to us for an aggregate annual management fee equal to \$2.5 million for the year ended December 2007, and the greater of \$2.5 million or 1.0% of adjusted EBITDA (as defined in the credit agreement governing our new Senior Secured Credit Facilities) for each year thereafter. Affiliates of Blackstone received reimbursement for out-of-pocket expenses incurred by them in connection with the Blackstone Transaction prior to the closing date and in connection with the provision of services pursuant to the agreement of merger. Expenses relating to the management fee were \$833 for the three months ended July 1, 2007. In addition, pursuant to the agreement of merger, an affiliate of Blackstone received transaction fees totaling \$21.6 million for services provided by Blackstone and its affiliates related to the Blackstone Transaction.

**Supplier Costs**

Graham Packaging, which is owned by affiliates of the Blackstone Group, supplies packaging for some of our products. Purchases from Graham Packaging were \$3,469 for the three months ended July 1, 2007.

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**14. Segments**

The Company's products and operations are managed and reported in two operating segments. The dry foods segment consists of the following reporting units: condiments (Vlasic®, Open Pit®), baking (Duncan Hines®), syrups (Mrs. Butterworth's® and Log Cabin®) and canned meat (Armour®). The frozen foods segment consists of the following reporting units: frozen dinners and entrees (Swanson®, Hungry-Man®), frozen seafood (Van de Kamp's®, Mrs. Paul's®), frozen breakfast (Aunt Jemima®), bagels (Lenders®), and frozen pizza (Celeste®). 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. Cost of products sold in the dry foods segment for the three and six months ended June 25, 2006 includes \$2,542 and \$4,570, representing the write-up of inventories to fair value at the date of the acquisition of the Armour Business. Cost of products sold in the dry and frozen segment for the three months ended July 1, 2007 included \$26,658 and \$9,275, respectively, representing the write up of inventories to the fair value at the date of the Blackstone Transaction. Fair value is also referred to as net realizable value, which is defined as estimated selling prices less the sum of (a) costs of disposal and (b) a reasonable profit allowance for the selling effort of the acquiring entity. Corporate assets consist of deferred tax assets. Unallocated corporate expenses consist of corporate overhead such as executive management, finance and legal functions, stock-based compensation expense related to the ownership units of LLC issued to CDM Investors Group LLC, and merger expenses related to the Blackstone Transaction.

SEGMENT INFORMATION	Three months ended			Six months ended		
	Successor	Predecessor		Successor	Predecessor	
	Three months ended July 1, 2007	Three months ended April 2, 2007	Three months ended June 25, 2006	Three months ended July 1, 2007	January 1, 2007 to April 2, 2007	Six months ended June 25, 2006
Net sales						
Dry foods	\$ 223,780	\$ -	\$ 218,223	\$ 223,780	\$ 193,606	\$ 354,757
Frozen foods	142,083	-	147,491	142,083	182,981	324,842
Total	<u>\$ 365,863</u>	<u>\$ -</u>	<u>\$ 365,714</u>	<u>\$ 365,863</u>	<u>\$ 376,587</u>	<u>\$ 679,599</u>
Earnings (loss) before interest and taxes						
Dry foods	\$ 3,260	\$ (5,028)	\$ 25,032	\$ 3,260	\$ 32,337	\$ 43,319
Frozen foods	1,732	(3,345)	9,188	1,732	675	15,774
Unallocated corporate expenses	(4,925)	(49,129)	(4,371)	(4,925)	(54,784)	(9,583)
Total	<u>\$ 67</u>	<u>\$ (57,502)</u>	<u>\$ 29,849</u>	<u>\$ 67</u>	<u>\$ (21,772)</u>	<u>\$ 49,510</u>
Depreciation and amortization						
Dry foods	\$ 5,688	\$ -	\$ 6,524	\$ 5,688	\$ 5,683	\$ 10,217
Frozen foods	4,004	-	5,037	4,004	4,480	10,630
Total	<u>\$ 9,692</u>	<u>\$ -</u>	<u>\$ 11,561</u>	<u>\$ 9,692</u>	<u>\$ 10,163</u>	<u>\$ 20,847</u>
Capital expenditures						
Dry foods	\$ 2,886	\$ -	\$ 1,982	\$ 2,886	\$ 3,611	\$ 3,229
Frozen foods	3,655	-	4,112	3,655	2,545	5,716
Total	<u>\$ 6,541</u>	<u>\$ -</u>	<u>\$ 6,094</u>	<u>\$ 6,541</u>	<u>\$ 6,156</u>	<u>\$ 8,945</u>
<u>GEOGRAPHIC INFORMATION</u>						
Net sales						
United States	\$ 348,343	\$ -	\$ 351,311	\$ 348,343	\$ 359,572	\$ 651,836
Canada	17,520	-	14,403	17,520	17,015	27,763
Total	<u>\$ 365,863</u>	<u>\$ -</u>	<u>\$ 365,714</u>	<u>\$ 365,863</u>	<u>\$ 376,587</u>	<u>\$ 679,599</u>

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

	<u>Successor</u>	<u>Predecessor</u>
	July 1,	December 31,
<u>SEGMENT INFORMATION:</u>	<u>2007</u>	<u>2006</u>
Total assets		
Dry foods	\$ 1,700,381	\$ 1,259,295
Frozen foods	961,541	530,948
Corporate	2,044	1,838
Total	<u>\$ 2,663,966</u>	<u>\$ 1,792,081</u>
<u>GEOGRAPHIC INFORMATION</u>		
Long-lived assets		
United States	\$ 247,504	\$ 253,357
Canada	48	30
Total	<u>\$ 247,552</u>	<u>\$ 253,387</u>

**15. Recently Issued Accounting Pronouncements**

In July 2006, the FASB issued FASB Interpretation No. 48, *“Accounting for Uncertainty in Income Taxes: An Interpretation of Statement of Financial Accounting Standards (“SFAS”) Statement No. 109”* (“FIN 48”). This interpretation clarifies SFAS No. 109, Accounting for Income Taxes, to indicate a criterion that an individual tax position would have to meet for some or all of the benefit of that position to be recognized in an entity’s financial statements. See Note 16 for additional information.

In September 2006, the FASB issued SFAS No. 157, *“Fair Value Measurements”*. This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is assessing what impact, if any, adoption of this statement would have on its financial position, results of operations and cash flows.

The FASB also issued in September 2006 Statement of Financial Accounting Standards No. 158, *“Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)”*, (“SFAS No. 158”). This Standard requires recognition of the funded status of a benefit plan in the statement of financial position. The Standard also requires recognition in accumulated other comprehensive income certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. SFAS No. 158 provides recognition and disclosure elements to be effective for fiscal years ending after December 15, 2007 and measurement elements to be effective for fiscal years ending after December 15, 2008. Effective with the Blackstone Transaction, the company adopted the recognition and disclosure elements of SFAS No. 158.

In February 2007, the FASB issued SFAS No. 159, *“The Fair Value Option for Financial Assets and Liabilities”* (“SFAS No. 159”). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new guidance is effective for fiscal years beginning after November 15, 2007. The Company is assessing what impact, if any, adoption of this statement would have on its financial position, results of operations and cash flows.

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

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**16. Income Taxes**

We adopted the provisions of FASB Interpretation No. 48 (“FIN 48”), “*Accounting for Uncertainty in Income Taxes: An Interpretation of Statement of Financial Accounting Standards (“SFAS”) Statement No. 109*”, on January 1, 2007. As a result of adoption, we recognized a charge of \$260 to the January 1, 2007 retained earnings balance and \$1,070 increase to goodwill related to the Pinnacle Transaction. As of January 1, 2007, after the implementation of FIN 48, the Company's liability for unrecognized tax benefits was \$2,280, excluding liabilities for interest and penalties. The amount, if recognized, that would impact the Predecessor's effective tax rate was \$261. The Company's liability for unrecognized tax benefits as of July 1, 2007 is \$1,376, reflecting a reduction of \$902 resulting from the expiration of certain statutes of limitation. The amount, if recognized, that would impact the effective tax rate as of July 1, 2007 was \$0. The entire amount of the liability for unrecognized tax benefits is classified as a long term liability.

The Company recognizes interest and penalties associated with uncertain tax positions as a component of the Provision for Income Taxes. The Company accrued interest of \$410 and \$277 as of January 1, 2007 and July 1, 2007, respectively. The reduction in the accrued interest was the result of the expiration of certain statutes of limitation during the quarter ended July 1, 2007. No penalties were accrued.

Upon adoption, the Company also recorded a reduction of \$102 million to its non current federal and state deferred tax assets resulting from the excess of Aurora's net operating loss carryover over its estimated limitation under Internal Revenue Code Section 382. As the Company maintains a full valuation allowance against this deferred tax asset, the adjustment resulted in no impact on the Consolidated Balance Sheet or Consolidated Statement of Operations of the Company.

The Company files income tax returns with the U.S. federal government and various state and international jurisdictions. With few exceptions, the Company's 1999 and subsequent federal and state tax years remain open by statute, principally relating to net operating loss carryovers. International jurisdictions remain open for 2001 and subsequent periods. It is expected that statutes of limitation for examination for certain federal and state years would expire prior to year end, and would not result in a material charge to the Company's effective tax rate. The Company does not have any open examinations that would result in a material change to the Company's liability for uncertain tax positions.

The Company maintains a full valuation allowance against net deferred tax assets excluding indefinite lived intangible assets, and the difference between the statutory rate and the effective rate difference is primarily due to the change in the valuation allowance. Deferred tax liabilities are recognized for the differences between the book and tax bases of certain goodwill and indefinite lived intangible assets. Additionally, the income tax provision is calculated quarterly based upon a discrete methodology.

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

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**17. Guarantor and Nonguarantor Statements**

In connection with the Blackstone Transaction described in Note 1 and as a part of the related financings, the Company issued \$325 million of 9 ¼% Senior Notes, and \$250 million 10 5/8% Senior Subordinated Notes in private placements pursuant to Rule 144A and Regulation S.

The Senior Notes are general unsecured obligations of the Company, subordinated in right of payment to all existing and future senior secured indebtedness of the Company and guaranteed on a full, unconditional, joint and several basis by the Company's wholly-owned domestic subsidiaries that guarantee other indebtedness of the Company.

The Senior Subordinated Notes are general unsecured obligations of the Company, subordinated in right of payment to all existing and future senior indebtedness of the Company and guaranteed on a full, unconditional, joint and several basis by the Company's wholly-owned domestic subsidiaries that guarantee other indebtedness of the Company.

The following consolidating financial information presents:

- (1) (a) Consolidating balance sheets as of July 1, 2007 for the Successor and December 31, 2006 for the Predecessor.
- (b) The related consolidating statements of operations for the Company, all guarantor subsidiaries and the nonguarantor subsidiary for the following:
  - i. Successor's three months ending July 1, 2007.
  - ii. Predecessor's activities on April 2, 2007, immediately prior to the Blackstone Transaction.
  - iii. Predecessor's three months ending June 25, 2006.
  - iv. Predecessor's activities from January 1, 2007 to April 2, 2007, immediately prior to the Blackstone Transaction.
  - v. Predecessor's six months ending June 25, 2006.
- (c) The related Consolidating Statements of Cash Flows for the Company, all guarantor subsidiaries and the nonguarantor subsidiary for the following:
  - i. Successor's three months ending July 1, 2007.
  - ii. Predecessor's activities from January 1, 2007 to April 2, 2007, immediately prior to the Blackstone Transaction.
  - iii. Predecessor's six months ending June 25, 2006.
- (2) Elimination entries necessary to consolidate the Company with its guarantor subsidiaries and nonguarantor subsidiary.

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.

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

**Pinnacle Foods Finance LLC**  
**Consolidating Balance Sheet**  
**July 1, 2007**

	Pinnacle Foods Finance LLC	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
<b>Current assets:</b>					
Cash and cash equivalents	\$ -	\$ 14,556	\$ 1,744	\$ -	\$ 16,300
Accounts receivable, net	897	90,480	6,333	-	97,710
Intercompany accounts receivable	-	4,663	-	(4,663)	-
Inventories, net	-	160,365	4,201	-	164,566
Other current assets	1,667	6,008	533	-	8,208
Deferred tax assets	-	2,044	-	-	2,044
Total current assets	2,564	278,116	12,811	(4,663)	288,828
Plant assets, net	-	247,504	48	-	247,552
Investment in subsidiaries	1,256,522	3,123	-	(1,259,645)	-
Intercompany note receivable	923,478	-	-	(923,478)	-
Tradenames	-	797,582	-	-	797,582
Other assets, net	44,479	26,527	-	-	71,006
Goodwill	-	1,258,998	-	-	1,258,998
Total assets	\$ 2,227,043	\$ 2,611,850	\$ 12,859	\$ (2,187,786)	\$ 2,663,966
<b>Current liabilities:</b>					
Current portion of long-term obligations	\$ 12,500	\$ 249	\$ -	\$ -	\$ 12,749
Notes payable	-	1,061	-	-	1,061
Accounts payable	-	75,962	2,448	-	78,410
Intercompany accounts payable	3,043	-	1,620	(4,663)	-
Accrued trade marketing expense	-	25,733	5,150	-	30,883
Accrued liabilities	16,606	69,184	351	-	86,141
Accrued income taxes	-	62	167	-	229
Total current liabilities	32,149	172,251	9,736	(4,663)	209,473
Long-term debt	1,812,500	941	-	-	1,813,441
Intercompany note payable	-	923,478	-	(923,478)	-
Pension and other postretirement benefits	-	20,935	-	-	20,935
Other long-term liabilities	481	4,165	-	-	4,646
Deferred tax liabilities	-	233,558	-	-	233,558
Total liabilities	1,845,130	1,355,328	9,736	(928,141)	2,282,053
Commitments and contingencies	-	-	-	-	-
<b>Shareholder's equity:</b>					
Pinnacle Common Stock, \$.01 par value	-	-	-	-	-
Additional paid-in-capital	424,214	1,280,967	2,323	(1,283,290)	424,214
Accumulated other comprehensive income, net of income taxes	6,017	222	222	(444)	6,017
(Accumulated deficit) Retained earnings	(48,318)	(24,667)	578	24,089	(48,318)
Total shareholder's equity	381,913	1,256,522	3,123	(1,259,645)	381,913
Total liabilities and shareholder's equity	\$ 2,227,043	\$ 2,611,850	\$ 12,859	\$ (2,187,786)	\$ 2,663,966

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

**Pinnacle Foods Group Inc.**  
**Consolidating Balance Sheet**  
**December 31, 2006**

	Pinnacle Foods Group, Inc.	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
<b>Current assets:</b>					
Cash and cash equivalents	\$ 2	\$ 12,335	\$ -	\$ -	\$ 12,337
Accounts receivable, net	52,691	28,431	4,461	-	85,583
Intercompany accounts receivable	-	23,148	1,680	(24,828)	-
Inventories, net	94,920	79,678	3,702	-	178,300
Other current assets	2,748	1,716	247	(215)	4,496
Deferred tax assets	-	1,774	64	-	1,838
Total current assets	<u>150,361</u>	<u>147,082</u>	<u>10,154</u>	<u>(25,043)</u>	<u>282,554</u>
Plant assets, net	141,286	112,071	30	-	253,387
Investment in subsidiaries	369,935	2,534	-	(372,469)	-
Intercompany note receivable	24,986	-	-	(24,986)	-
Tradenames	691,426	106,156	-	-	797,582
Other assets, net	56,298	99	-	-	56,397
Goodwill	261,748	140,413	-	-	402,161
Total assets	<u>\$ 1,696,040</u>	<u>\$ 508,355</u>	<u>\$ 10,184</u>	<u>\$ (422,498)</u>	<u>\$ 1,792,081</u>
<b>Current liabilities:</b>					
Current portion of long-term obligations	\$ 11	\$ 112	\$ -	\$ -	\$ 123
Notes payable	-	210	-	-	210
Accounts payable	15,795	38,270	3,477	1	57,543
Intercompany accounts payable	23,148	1,680	-	(24,828)	-
Accrued trade marketing expense	24,272	9,202	3,678	-	37,152
Accrued liabilities	51,797	28,958	495	(2)	81,248
Accrued income taxes	90	1,167	-	(215)	1,042
Total current liabilities	<u>115,113</u>	<u>79,599</u>	<u>7,650</u>	<u>(25,044)</u>	<u>177,318</u>
Long-term debt	920,549	81	-	-	920,630
Intercompany note payable	-	24,986	-	(24,986)	-
Pension and other postretirement benefits	9,804	6,304	-	1	16,109
Other long-term liabilities	1,962	-	-	-	1,962
Deferred tax liabilities	210,257	27,450	-	-	237,707
Total liabilities	<u>1,257,685</u>	<u>138,420</u>	<u>7,650</u>	<u>(50,029)</u>	<u>1,353,726</u>
Commitments and contingencies	-	-	-	-	-
<b>Shareholder's equity:</b>					
Pinnacle Common Stock, \$.01 par value	-	-	-	-	-
Additional paid-in-capital	573,403	347,448	935	(348,383)	573,403
Accumulated other comprehensive income	161	161	198	(359)	161
Carryover of Predecessor basis of net assets	(17,338)	-	-	-	(17,338)
(Accumulated deficit) Retained earnings	(117,871)	22,326	1,401	(23,727)	(117,871)
Total shareholder's equity	<u>438,355</u>	<u>369,935</u>	<u>2,534</u>	<u>(372,469)</u>	<u>438,355</u>
Total liabilities and shareholder's equity	<u>\$ 1,696,040</u>	<u>\$ 508,355</u>	<u>\$ 10,184</u>	<u>\$ (422,498)</u>	<u>\$ 1,792,081</u>

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

**Pinnacle Foods Finance LLC**  
**Consolidating Statement of Operations**  
**For the three months ended July 1, 2007**

	Pinnacle Foods Finance LLC	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
Net sales	\$ -	\$ 357,780	\$ 17,520	\$ (9,437)	\$ 365,863
Costs and expenses					
Cost of products sold	-	310,348	14,167	(9,241)	315,274
Marketing and selling expenses	-	31,863	1,692	-	33,555
Administrative expenses	833	12,747	535	-	14,115
Research and development expenses	-	952	-	-	952
Intercompany royalties	-	-	21	(21)	-
Intercompany technical service fees	-	-	175	(175)	-
Other expense (income), net	-	1,900	-	-	1,900
Equity in (earnings) loss of investees	24,667	(578)	-	(24,089)	-
Total costs and expenses	25,500	357,232	16,590	(33,526)	365,796
(Loss) earnings before interest and taxes	(25,500)	548	930	24,089	67
Intercompany interest (income) expense	(18,055)	18,055	-	-	-
Interest expense	44,204	128	-	-	44,332
Interest income	-	446	15	-	461
(Loss) earnings before income taxes	(51,649)	(17,189)	945	24,089	(43,804)
(Benefit) provision for income taxes	(3,331)	7,478	367	-	4,514
Net (loss) earnings	\$ (48,318)	\$ (24,667)	\$ 578	\$ 24,089	\$ (48,318)

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

**Pinnacle Foods Group Inc.**  
**Consolidating Statement of Operations**  
**April 2, 2007**

	Pinnacle Foods Group, Inc.	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
Net sales	\$ -	\$ -	\$ -	\$ -	\$ -
Costs and expenses					
Cost of products sold	1,172	-	-	-	1,172
Marketing and selling expenses	2,933	(2)	-	-	2,931
Administrative expenses	3,935	-	-	-	3,935
Research and development expenses	333	2	-	-	335
Intercompany royalties	-	-	-	-	-
Intercompany technical service fees	-	-	-	-	-
Other expense (income), net	39,917	8,800	412	-	49,129
Equity in (earnings) loss of investees	9,058	263	-	(9,321)	-
Total costs and expenses	57,348	9,063	412	(9,321)	57,502
(Loss) earnings before interest and taxes	(57,348)	(9,063)	(412)	9,321	(57,502)
Intercompany interest (income) expense	-	-	-	-	-
Interest expense	18,862	-	-	-	18,862
Interest income	-	-	-	-	-
(Loss) earnings before income taxes	(76,210)	(9,063)	(412)	9,321	(76,364)
Provision (benefit) for income taxes	68	(5)	(149)	-	(86)
Net (loss) earnings	\$ (76,278)	\$ (9,058)	\$ (263)	\$ 9,321	\$ (76,278)

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

**Pinnacle Foods Group Inc.**  
**Consolidating Statement of Operations**  
**For the three months ended June 25, 2006**

	Pinnacle Foods Group, Inc.	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
Net sales	\$ 211,589	\$ 146,301	\$ 14,403	\$ (6,579)	\$ 365,714
Costs and expenses					
Cost of products sold	169,772	117,982	11,340	(6,371)	292,723
Marketing and selling expenses	14,215	9,915	2,203	-	26,333
Administrative expenses	7,671	4,688	446	-	12,805
Research and development expenses	617	371	-	-	988
Intercompany royalties	-	-	30	(30)	-
Intercompany technical service fees	-	-	178	(178)	-
Other expense (income), net	2,959	57	-	-	3,016
Equity in (earnings) loss of investees	(10,992)	(70)	-	11,062	-
Total costs and expenses	184,242	132,943	14,197	4,483	335,865
Earnings before interest and taxes	27,347	13,358	206	(11,062)	29,849
Intercompany interest (income) expense	(2,099)	2,099	-	-	-
Interest expense	21,844	26	-	-	21,870
Interest income	-	247	14	-	261
Earnings before income taxes	7,602	11,480	220	(11,062)	8,240
Provision for income taxes	6,497	488	150	-	7,135
Net earnings	\$ 1,105	\$ 10,992	\$ 70	\$ (11,062)	\$ 1,105

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

**Pinnacle Foods Group Inc.**  
**Consolidating Statement of Operations**  
**January 1, 2007 to April 2, 2007**

	Pinnacle Foods Group, Inc.	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
Net sales	\$ 233,444	\$ 134,834	\$ 17,015	\$ (8,706)	\$ 376,587
Costs and expenses					
Cost of products sold	171,438	116,165	14,062	(8,474)	293,191
Marketing and selling expenses	22,677	9,927	2,371	-	34,975
Administrative expenses	12,667	4,697	350	-	17,714
Research and development expenses	1,056	381	-	-	1,437
Intercompany royalties	-	-	57	(57)	-
Intercompany technical service fees	-	-	175	(175)	-
Other expense (income), net	41,833	8,797	412	-	51,042
Equity in (earnings) loss of investees	6,018	254	-	(6,272)	-
Total costs and expenses	255,689	140,221	17,427	(14,978)	398,359
Loss before interest and taxes	(22,245)	(5,387)	(412)	6,272	(21,772)
Intercompany interest (income) expense	(465)	465	-	-	-
Interest expense	39,067	12	-	-	39,079
Interest income	-	472	14	-	486
Loss before income taxes	(60,847)	(5,392)	(398)	6,272	(60,365)
Provision (benefit) for income taxes	5,802	626	(144)	-	6,284
Net loss	\$ (66,649)	\$ (6,018)	\$ (254)	\$ 6,272	\$ (66,649)

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

**Pinnacle Foods Group Inc.**  
**Consolidating Statement of Operations**  
**For the six months ended June 25, 2006**

	Pinnacle Foods Group, Inc.	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
Net sales	\$ 395,157	\$ 271,112	\$ 27,763	\$ (14,433)	\$ 679,599
Costs and expenses					
Cost of products sold	308,185	230,016	22,470	(14,055)	546,616
Marketing and selling expenses	29,218	17,507	3,700	-	50,425
Administrative expenses	16,358	9,258	786	-	26,402
Research and development expenses	1,183	737	-	-	1,920
Intercompany royalties	-	-	60	(60)	-
Intercompany technical service fees	-	-	318	(318)	-
Other expense (income), net	4,632	94	-	-	4,726
Equity in (earnings) loss of investees	(8,077)	(216)	-	8,293	-
Total costs and expenses	351,499	257,396	27,334	(6,140)	630,089
Earnings before interest and taxes	43,658	13,716	429	(8,293)	49,510
Intercompany interest (income) expense	(4,295)	4,295	-	-	-
Interest expense	41,359	33	-	-	41,392
Interest income	-	378	22	-	400
Earnings before income taxes	6,594	9,766	451	(8,293)	8,518
Provision for income taxes	11,909	1,689	235	-	13,833
Net (loss) earnings	\$ (5,315)	\$ 8,077	\$ 216	\$ (8,293)	\$ (5,315)

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

**Pinnacle Foods Finance LLC**  
**Consolidating Statement of Cash Flows**  
**For the three months ended July 1, 2007**

	Pinnacle Foods Finance LLC	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
<b>Cash flows from operating activities</b>					
Net (loss) earnings from operations	\$ (48,318)	\$ (24,667)	\$ 578	\$ 24,089	\$ (48,318)
Non-cash charges (credits) to net (loss) earnings					
Depreciation and amortization	-	9,679	13	-	9,692
Amortization of debt acquisition costs	5,387	-	-	-	5,387
Change in value of financial instruments	(955)	(517)	-	-	(1,472)
Stock-based compensation charges	-	178	-	-	178
Equity in (earnings) loss of investees	24,667	(578)	-	(24,089)	-
Postretirement healthcare benefits	-	378	-	-	378
Pension expense	-	393	-	-	393
Other long-term liabilities	481	(515)	-	-	(34)
Deferred income taxes	(3,331)	7,528	-	-	4,197
Changes in working capital, net of acquisition					
Accounts receivable	(897)	8,609	(1,086)	-	6,626
Intercompany accounts receivable/payable	17,758	(17,976)	218	-	-
Inventories	-	30,396	682	-	31,078
Accrued trade marketing expense	-	(11,086)	1,721	-	(9,365)
Accounts payable	-	8,595	(1,298)	-	7,297
Accrued liabilities	16,608	(17,157)	80	-	(469)
Other current assets	(1,667)	(222)	40	-	(1,849)
Net cash provided by (used in) operating activities	<u>9,733</u>	<u>(6,962)</u>	<u>948</u>	<u>-</u>	<u>3,719</u>
<b>Cash flows from investing activities</b>					
Payments for business acquisition, net of cash acquired	(1,325,980)	5,921	813	-	(1,319,246)
Capital expenditures	-	(6,527)	(14)	-	(6,541)
Sale of plant assets	-	2,200	-	-	2,200
Net cash (used in) provided by investing activities	<u>(1,325,980)</u>	<u>1,594</u>	<u>799</u>	<u>-</u>	<u>(1,323,587)</u>
<b>Cash flows from financing activities</b>					
Repayment of capital lease obligations	-	(88)	-	-	(88)
Equity contributions	420,414	-	-	-	420,414
Reduction of equity contributions	(391)	-	-	-	(391)
Debt acquisition costs	(39,785)	-	-	-	(39,785)
Proceeds from bank term loan	1,250,000	-	-	-	1,250,000
Proceeds from bond issuances	575,000	-	-	-	575,000
Proceeds from notes payable borrowing	10,000	2,102	-	-	12,102
Repayments of notes payable	(10,000)	(1,042)	-	-	(11,042)
Intercompany loans	(888,991)	888,991	-	-	-
Repayments of Predecessor's long term obligations	-	(870,042)	-	-	(870,042)
Net cash provided by financing activities	<u>1,316,247</u>	<u>19,921</u>	<u>-</u>	<u>-</u>	<u>1,336,168</u>
Effect of exchange rate changes on cash	-	-	-	-	-
Net change in cash and cash equivalents	-	14,553	1,747	-	16,300
Cash and cash equivalents - beginning of period	-	-	-	-	-
Cash and cash equivalents - end of period	<u>\$ -</u>	<u>\$ 14,553</u>	<u>\$ 1,747</u>	<u>\$ -</u>	<u>\$ 16,300</u>
<b>Supplemental disclosures of cash flow information:</b>					
Interest paid	\$ 24,810	\$ 2,384	\$ -	\$ -	\$ 27,194
Interest received	-	446	15	-	461
Income taxes paid	-	(18)	(9)	-	(27)
<b>Non-cash financing activity:</b>					
Equity contribution	4,013	-	-	-	4,013

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

**Pinnacle Foods Group Inc.**  
**Consolidating Statement of Cash Flows**  
**January 1, 2007 to April 2, 2007**

	Pinnacle Foods Group, Inc.	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
Cash flows from operating activities					
Net loss	\$ (66,649)	\$ (6,018)	\$ (254)	\$ 6,272	\$ (66,649)
Non-cash charges (credits) to net loss					
Depreciation and amortization	6,401	3,749	13	-	10,163
Amortization of debt acquisition costs	26,049	-	-	-	26,049
Amortization of bond premium	(5,360)	-	-	-	(5,360)
Change in value of financial instruments	1,247	-	-	-	1,247
Stock-based compensation charges	8,778	-	-	-	8,778
Equity in (earnings) loss of investees	6,018	254	-	(6,272)	-
Postretirement healthcare benefits	366	(72)	-	-	294
Pension expense	125	235	-	-	360
Other long-term liabilities	2,375	89	-	-	2,464
Deferred income taxes	5,573	726	-	-	6,299
Changes in working capital					
Accounts receivable	(9,951)	(8,049)	(339)	-	(18,339)
Intercompany accounts receivable/payable	19,760	(22,723)	2,963	-	-
Inventories	7,237	13,573	(765)	-	20,045
Accrued trade marketing expense	(540)	3,835	(541)	-	2,754
Accounts payable	5,734	7,694	858	-	14,286
Accrued liabilities	42,880	10,475	78	-	53,433
Other current assets	759	(622)	(277)	-	(140)
Net cash provided by operating activities	<u>50,802</u>	<u>3,146</u>	<u>1,736</u>	<u>-</u>	<u>55,684</u>
Cash flows from investing activities					
Capital expenditures	(2,846)	(2,165)	(16)	-	(5,027)
Net cash used in investing activities	<u>(2,846)</u>	<u>(2,165)</u>	<u>(16)</u>	<u>-</u>	<u>(5,027)</u>
Cash flows from financing activities					
Change in bank overdrafts	-	-	(908)	-	(908)
Repayment of capital lease obligations	(10)	(45)	-	-	(55)
Equity contributions	26	-	-	-	26
Repayments of notes payable	-	(210)	-	-	(210)
Repayments of long term obligations	(45,146)	-	-	-	(45,146)
Net cash used in financing activities	<u>(45,130)</u>	<u>(255)</u>	<u>(908)</u>	<u>-</u>	<u>(46,293)</u>
Effect of exchange rate changes on cash	-	-	-	-	-
Net change in cash and cash equivalents	2,826	726	812	-	4,364
Cash and cash equivalents - beginning of period	2	12,335	-	-	12,337
Cash and cash equivalents - end of period	<u>\$ 2,828</u>	<u>\$ 13,061</u>	<u>\$ 812</u>	<u>\$ -</u>	<u>\$ 16,701</u>
Supplemental disclosures of cash flow information:					
Interest paid	\$ 9,123	\$ 12	\$ -	\$ -	\$ 9,135
Interest received	-	472	14	-	486
Income taxes refunded (paid)	-	119	(222)	-	(103)
Non-cash investing activity:					
Capital leases	-	(1,129)	-	-	(1,129)

**PINNACLE FOODS FINANCE LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

**Pinnacle Foods Group Inc.**  
**Consolidating Statement of Cash Flows**  
**For the six months ended June 25, 2006**

	Pinnacle Foods Group, Inc.	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
Cash flows from operating activities					
Net (loss) earnings	\$ (5,315)	\$ 8,077	\$ 216	\$ (8,293)	\$ (5,315)
Non-cash charges (credits) to net (loss) earnings					
Depreciation and amortization	13,110	7,733	4	-	20,847
Amortization of debt acquisition costs	3,259	-	-	-	3,259
Amortization of bond premium	(278)	-	-	-	(278)
Change in value of financial instruments	(182)	-	-	-	(182)
Stock-based compensation charge	2,015	-	-	-	2,015
Equity in loss (earnings) of investees	(8,077)	(216)	-	8,293	-
Postretirement healthcare benefits	468	(138)	-	-	330
Pension expense	218	566	-	-	784
Other long-term liabilities	80	-	-	-	80
Deferred income taxes	11,004	1,990	(2)	-	12,992
Changes in working capital, net of acquisition					
Accounts receivable	(33,773)	(3,129)	831	-	(36,071)
Intercompany accounts receivable/payable	50,724	(52,941)	2,217	-	-
Inventories	10,671	42,664	544	-	53,879
Accrued trade marketing expense	3,613	2,190	(936)	-	4,867
Accounts payable	(3,544)	7,978	(2,214)	-	2,220
Accrued liabilities	(1,991)	3,056	(91)	-	974
Other current assets	(544)	845	340	-	641
Net cash provided by operating activities	<u>41,458</u>	<u>18,675</u>	<u>909</u>	<u>-</u>	<u>61,042</u>
Cash flows from investing activities					
Payments for business acquisitions	(186,869)	-	-	-	(186,869)
Capital expenditures	(3,839)	(5,101)	(5)	-	(8,945)
Net cash used in investing activities	<u>(190,708)</u>	<u>(5,101)</u>	<u>(5)</u>	<u>-</u>	<u>(195,814)</u>
Cash flows from financing activities					
Change in bank overdrafts	-	(6,550)	(163)	-	(6,713)
Repayment of capital lease obligations	(5)	(72)	-	-	(77)
Equity contribution	40,000	-	-	-	40,000
Debt acquisition costs	(3,743)	-	-	-	(3,743)
Proceeds from bank term loan	143,000	-	-	-	143,000
Proceeds from notes payable borrowing	-	2,410	-	-	2,410
Repayments of notes payable	-	(947)	-	-	(947)
Repayments of long term obligations	(30,000)	-	-	-	(30,000)
Net cash provided by (used in) financing activities	<u>149,252</u>	<u>(5,159)</u>	<u>(163)</u>	<u>-</u>	<u>143,930</u>
Effect of exchange rate changes on cash	-	-	-	-	-
Net change in cash and cash equivalents	2	8,415	741	-	9,158
Cash and cash equivalents - beginning of period	-	519	-	-	519
Cash and cash equivalents - end of period	<u>\$ 2</u>	<u>\$ 8,934</u>	<u>\$ 741</u>	<u>\$ -</u>	<u>\$ 9,677</u>
Supplemental disclosures of cash flow information:					
Interest paid	\$ 45,256	\$ -	\$ -	\$ -	\$ 45,256
Interest received	-	378	22	-	400
Income taxes refunded (paid)	-	35	(251)	-	(216)
Non-cash investing activity:					
Capital lease activity	-	(12)	-	-	(12)

## **ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**(dollars in millions, except where noted)**

The purpose of this section is to discuss and analyze our consolidated financial condition, liquidity and capital resources and results of operations. You should read this analysis in conjunction with the consolidated financial statements and accompanying notes to the consolidated financial statements. This quarterly report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements include 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 that is not historical information. When used in this quarterly report, the words "estimates," "expects," "contemplates," "anticipates," "projects," "plans," "intends," "believes," "forecasts," "may," "should" and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, management's examination of historical operating trends, are based upon our current expectations and various assumptions. 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 and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this quarterly report. Such risks, uncertainties and other important factors include, among others, the risks, uncertainties and factors set forth under "Item 1A. Risk Factors" in our annual report on Form 10-K, other matters discussed from time to time in subsequent reports, and the following risks, uncertainties and factors:

- general economic and business conditions;
- industry trends;
- changes in our leverage;
- interest rate changes;
- changes in our ownership structure;
- competition;
- the loss of any of our major customers or suppliers;
- changes in demand for our products;
- changes in distribution channels or competitive conditions in the markets where we operate;
- costs and timeliness of integrating future acquisitions;
- loss of our intellectual property rights;
- fluctuations in price and supply of raw materials;
- seasonality;
- our reliance on co-packers to meet our manufacturing needs;
- availability of qualified personnel; and
- changes in the cost of compliance with laws and regulations, including environmental laws and regulations.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements.

All forward-looking statements in this quarterly report apply only as of the date of this quarterly report and are expressly qualified in their entirety by the cautionary statements included in this quarterly report. We undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances.

## OVERVIEW

We are a leading producer, marketer and distributor of high quality, branded food products, the results of which are managed and reported in two operating segments: dry foods and frozen foods. The dry foods segment consists of the following product lines (brands): condiments (Vlasic®, Open Pit®), baking (Duncan Hines®), syrup (Mrs. Butterworth's®, Log Cabin®) and canned meat (Armour®). The frozen foods segment consists of the following product lines (brands): frozen dinners (Swanson, Hungry-Man), frozen seafood (Van de Kamp's®, Mrs. Paul's®), frozen breakfast (Aunt Jemima®), bagels (Lenders®), and frozen pizza (Celeste®).

### Our History

On May 22, 2001, Pinnacle Foods Holding Corp. ("PFHC") acquired certain assets and assumed certain liabilities of the North American business of Vlasic Foods International Inc. ("VFI"). The North American business consisted of the Swanson and Hungry-Man frozen food, Vlasic pickles, peppers and relish and Open Pit barbecue sauce businesses. PFHC was incorporated on March 29, 2001 but had no operations until the acquisition of the North American business of VFI.

Crunch Holding Corp. ("CHC"), a Delaware corporation indirectly owned by J.P. Morgan Partners, LLC, J.W. Childs Associates, L.P. and CDM Investor Group LLC, acquired PFHC on November 25, 2003 (the "Pinnacle Transaction").

On November 25, 2003, Aurora Foods Inc. ("Aurora") entered into a definitive agreement with Crunch Equity Holding, LLC, the parent of CHC. The definitive agreement provided for a comprehensive restructuring transaction in which PFHC was merged with and into Aurora, with Aurora surviving the merger, following the filing and confirmation of a pre-negotiated bankruptcy reorganization case with respect to Aurora under Chapter 11 of the U.S. Bankruptcy Code. On December 8, 2003, Aurora and its subsidiary, Sea Coast Foods, Inc., filed their petitions for reorganization with the Bankruptcy Court. On February 20, 2004, the First Amended Joint Reorganization Plan of Aurora Foods Inc. and Sea Coast Foods, Inc., as modified, dated February 17, 2004, was confirmed by order of the Bankruptcy Court. This restructuring transaction was completed on March 19, 2004, and the surviving company was renamed Pinnacle Foods Group Inc. (the "Aurora Merger")

On March 1, 2006, the Company acquired certain assets and assumed certain liabilities of the food products business (the "Armour Business") of The Dial Corporation for \$189.2 million in cash. The acquisition of the Armour Business complemented the Company's existing product lines that together provide growth opportunities and scale. The Armour Business is a leading manufacturer, distributor and marketer of products in the \$1.0 billion canned meat category. For the year ended December 31, 2005, the Armour Business had net sales of approximately \$225 million. The Armour Business offers products in twelve of the fifteen segments within the canned meat category and maintains the leading market position in the Vienna sausage, potted meat and sliced beef categories. The business also includes meat spreads, chili, luncheon meat, corned and roast beef hash and beef stew. The majority of the products are produced at the manufacturing facility located in Ft. Madison, Iowa, which was acquired in the transaction. Products are sold under the Armour brand name as well as private label and certain co-pack arrangements.

### Blackstone Transaction

On February 10, 2007, CHC, our parent company, entered into an Agreement and Plan of Merger with Peak Holdings LLC ("Peak Holdings"), a Delaware limited liability company controlled by affiliates of The Blackstone Group, Peak Acquisition Corp. ("Peak Acquisition"), a wholly owned subsidiary of Peak Holdings, and Peak Finance LLC ("Peak Finance"), an indirect wholly owned subsidiary of Peak Acquisition, providing for the acquisition of CHC. Under the terms of the Agreement and Plan of Merger, the purchase price for CHC was \$2,162.5 million in cash less the amount of indebtedness of CHC and its subsidiaries outstanding immediately prior to the closing and certain transaction costs, subject to purchase price adjustments based on the balance of working capital and indebtedness as of the closing. Pursuant to the Agreement and Plan of Merger, immediately prior to the closing, CHC contributed all of the outstanding shares of capital stock of its wholly owned subsidiary, Pinnacle Foods Group Inc. ("PFGI"), to a newly-formed Delaware limited liability company, Pinnacle Foods Finance LLC ("PFF"). At the closing, Peak Acquisition merged with and into CHC, with CHC as the surviving corporation, and Peak Finance merged with and into PFF, with PFF as the surviving entity. As a result of the Merger, CHC will become a wholly-owned subsidiary of Peak Holdings. This transaction closed on April 2, 2007 (the "Blackstone Transaction").

For purposes of identification and description, Pinnacle Foods Group Inc. ("PFGI"), is referred to as the "Predecessor" for the period prior to the Blackstone Transaction occurring on April 2, 2007, and Pinnacle Foods Finance LLC ("PFF" or the "Company") is referred to as the "Successor" for the period subsequent to the Blackstone Transaction.

Each share of CHC's issued and outstanding stock immediately prior to closing was converted into the right to receive the per share merger consideration (approximately \$1.975 per share) in cash. The aggregate purchase price was approximately \$2,162.5 million, including the repayment of outstanding debt under the Predecessor's Senior Secured Credit Facilities and senior subordinated notes. The purchase price adjustment was approximately \$2.3 million and was finalized in August 2007.

The Blackstone Transaction was financed through borrowings of a \$1,250 million term loan and a \$10 million revolver drawing under the Successor's Senior Secured Credit Facilities, \$325 million of Senior Notes and \$250 million of Senior Subordinated Notes, all issued on April 2, 2007 and \$422.2 million equity contribution from the Blackstone Group and other investors and \$12.3 million in existing cash.

### **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. This discussion includes forward-looking statements that are based on our current expectations. See the note regarding forward-looking statements at the beginning of this section.

### **Industry Factors**

Our industry is characterized by the following general trends:

- *Industry Growth.* Growth in our industry is driven primarily by population and modest product sale price increases. Incremental growth is principally driven by product, packaging and process innovation.
- *Competition.* The food products business is competitive. Numerous brands and products compete for shelf space and sales, with competition based primarily on product quality, convenience, price, trade promotion, consumer promotion, brand recognition and loyalty, customer service and the ability to identify and satisfy emerging consumer preferences. In order to maintain and grow our business, we must be able to react to these competitive pressures.
- *Consumer Tastes and Trends.* Consumer trends, such as changing health trends and focus on convenience and products tailored for busy lifestyles, present both opportunities and challenges for our business. In order to maintain and grow our business, we must react to these trends by offering products that respond to evolving consumer needs.
- *Customer Consolidation.* In recent years, our industry had been characterized by consolidation in the retail grocery and food service industries, with mass merchandisers gaining market share. This trend could increase customer concentration within the industry.

### **Revenue Factors**

Our net sales are driven principally by the following factors:

- *Shipments*, which change as a function of changes in volume and, to a lesser degree, changes in price; and
- the costs that we deduct from shipments to reach net sales, which consist of:
  - *Trade marketing expenses*, which include the cost of temporary price reductions ("on sale" prices), promotional displays and advertising space in store circulars.
  - *Consumer coupon redemption expenses*, which include the costs from the redemption of coupons we circulate as part of our marketing efforts.
  - *Slotting 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.

We give detailed information on these factors below under "Results of Operations."

### **Cost Factors**

Our important costs include the following:

- *Raw materials*, such as sugar, cucumbers, flour, poultry and seafood, 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 corrugated fiberboard, aluminum, glass and resin.
- *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 retailers from those centers. Our freight and distribution costs are influenced by fuel costs.

- *Advertising and other marketing expenses.* We record expenses related to advertising and other consumer and trade-oriented marketing programs under “Marketing and selling expenses” in our consolidated financial statements. We expect our consumer advertising and marketing expenses to increase significantly in fiscal 2007 compared to fiscal 2006 as we implement our strategy of slowly shifting a portion of trade support spending to consumer advertising and marketing.

### **Working Capital**

Our working capital is primarily driven by accounts receivable and inventories, which fluctuate throughout the year due to seasonality in both sales and production, as described in “Seasonality.” We will continue to focus on reducing our working capital requirements while simultaneously maintaining our customer service levels and production needs. We have historically relied on internally generated cash flows 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 the Blackstone Transaction and the related financing, we have significant indebtedness. Although we expect to reduce our leverage over time, we expect interest expense to continue to be a significant component of our expenses.
- *Cash Taxes.* We have significant tax-deductible intangibles and federal net operating losses, which we believe will result in minimal cash taxes in the next several years. We expect to continue to record non-cash provisions for deferred income taxes in the future, but we cannot guarantee that we will be able to utilize all of our net operating loss carry forwards.
- *Acquisitions and consolidations.* We believe we have the expertise to identify and integrate value-enhancing acquisitions to further grow our business. In recent years we have successfully integrated acquisitions. We have, however, incurred significant costs in connection with integrating these businesses and streamlining our operations.
- *Impairment of Goodwill and Long-Lived Assets.* We test our goodwill and intangible assets annually for impairment and have recorded impairment charges in recent years.

### **Seasonality**

We experience seasonality in our sales and cash flows. Sales of frozen foods, including seafood, tend to be marginally higher during the winter months. Sales of pickles, relishes and barbecue sauces tend to be higher in the spring and summer months, and demand for Duncan Hines products tends to be higher around the Easter, Thanksgiving and Christmas holidays. We pack the majority of our pickles during a season extending from May through September and also increase our Duncan Hines inventories at that time in advance of the selling season. As a result, our inventory levels are higher during August, September and October, and thus we require more working capital during those months. We are a seasonal net user of cash in the third quarter of the calendar year, which may require us to draw on the revolving credit commitments under our Senior Secured Credit Facilities.

### **Plant Consolidations**

#### ***Omaha, Nebraska Production Facility***

From the announcement in April 2004 through July 1, 2007, we recorded restructuring charges totaling \$19.6 million, pertaining to our decision to permanently close the Omaha, Nebraska production facility. These charges are recorded as a component of Other expense (income), net in the Consolidated Statement of Operations and are reported in the frozen foods segment. The closure was part of our plan of consolidating and streamlining production activities after the Aurora Merger. These charges were recorded in accordance with SFAS No. 112, “Employers Accounting for Postemployment Benefits”, SFAS No. 144, “Accounting for the Impairment and Disposal of Long-Lived Assets” and SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities”. In determining such charges, we made certain estimates and judgments surrounding the amounts ultimately to be paid and received for the actions we have taken.

Production from the Omaha plant, which manufactured Swanson frozen entree retail products and frozen foodservice products, has been relocated to our Fayetteville, Arkansas and Jackson, Tennessee production facilities. Activities related to the final closure of the plant were completed in the first quarter of 2005 and resulted in the elimination of 411 positions. During the second quarter of 2007, the facility was sold for \$2.2 million.

### ***Erie, Pennsylvania Production Facility***

On April 29, 2005, the Company's board of directors approved a plan to permanently close its Erie, Pennsylvania production facility, as part of the Company's plan of consolidating and streamlining production activities after the Aurora Merger. Production from the Erie plant, which manufactured Van de Kamp's and Mrs. Paul's frozen seafood products and Aunt Jemima frozen breakfast products, has been relocated primarily to the Company's Jackson, Tennessee production facility. Activities related to the closure of the plant were completed in 2006 and resulted in the elimination of approximately 290 positions. Employee termination activities commenced in July 2005 and were substantially completed by the end of the first quarter of 2006. From the date of the announcement, through the fourth quarter of 2006, the company incurred charges totaling \$7.3 million related to the shutdown of the Erie, Pennsylvania production facility. These charges incurred have been included in the Other expense (income), net line in the Consolidated Statement of Operations. All such charges are reported under the frozen foods segment. During the fourth quarter of 2006, the plant and any remaining equipment was sold for \$1.8 million.

As of July 1, 2007, we had an accrued restructuring liability of \$0.4 million, all of which related to the severance costs from the acquisition of the Armour Foods Business. We expect all of these costs to be paid during the next twelve months.

### **Items Affecting Comparability**

During the six months ended July 1, 2007, our earnings (loss) before interest and taxes were negatively impacted by certain items. These items included:

- On April 2, 2007, the Company incurred \$49.1 million of merger related costs relating to the Blackstone Transaction. The costs included \$35.5 million related to the cash tender offer for the Predecessor's 8 ¼% Senior Subordinated Notes, \$12.9 million related to the termination of certain of the Predecessor's contracts, and \$0.7 million related to payroll taxes.
- Also on April 2, 2007, immediately prior to closing of the Blackstone Transaction, pursuant to their original terms, all of the Predecessor's outstanding stock options vested and the Predecessor exercised its purchase option to purchase at fair value all of the shares of common stock to be acquired by exercise of options held by employees pursuant to the Predecessor's Stock Option Plan. As a result, the Company incurred a charge of \$8.4 million for stock compensation expense.
- In the three and six months ended July 1, 2007, we recorded a charge of \$35.9 million related to the flow through of the increase in the fair market value of inventories acquired in the Blackstone Transaction.

During the six months ended June 25, 2006, our earnings (loss) before interest and taxes were negatively impacted by certain items. These items included:

- In the three and six months ended June 25, 2006, we recorded a charge of \$2.5 million and \$4.6 million, respectively, related to the flow through of the increase in the fair market value of inventories acquired in the Armour Business.
- In the three and six months ended June 25, 2006, we recorded non-cash equity compensation of \$0 and \$1.4 million, respectively, for certain ownership units of Crunch Equity Holdings, LLC issued to CDM Investor Group LLC, which is controlled by certain members of PFGI's management in connection with the Armour acquisition.
- The three and six months ended June 25, 2006 were impacted by plant consolidation costs totaling \$0.5 million and \$1.0 million, respectively, related to the closing of the Omaha, Nebraska and Erie, Pennsylvania production facilities. These costs, which were part of our plan of consolidating and streamlining production activities after the Aurora Merger, are discussed above under the heading "Plant Consolidation."

## RESULTS OF OPERATIONS

The discussion below for each of the comparative periods is based upon net sales. We determine net sales in accordance with generally accepted accounting principles. We calculate our net sales by deducting trade marketing, slotting and consumer coupon redemption expenses from shipments. "Shipments" means gross sales less cash discounts, returns and "non-marketing" allowances. We calculate gross sales by multiplying the published list price of each product by the number of units of that product sold.

The discussion below for the three months ended July 1, 2007 is based on the combination of the Predecessor's consolidated financial results for April 2, 2007 and the Successor's consolidated financial results for the period from April 2, 2007 to July 1, 2007. The discussion below for the six months ended July 1, 2007 is based on the combination of the Predecessor's consolidated financial results for the period from January 1, 2007 to April 2, 2007 and the Successor's consolidated financial results for the period from April 2, 2007 to July 1, 2007. These combinations represent what we believe is the most meaningful basis for comparison of the current year with the corresponding period of the prior year, although the combination is not in accordance with GAAP. We believe that this is the most meaningful basis for comparison because the customer base, products, manufacturing facilities and types of marketing programs were the same under the Predecessor as they are under Successor.

Shipments is a non-GAAP financial measure. We include it in our management's discussion and analysis because we believe that it is a relevant financial performance indicator for our company as it measures the increase or decrease in our revenues caused by shipping more or less physical case volume multiplied by our published list prices. It is also a measure used by our management to evaluate our revenue performance. This measure is not recognized in accordance with GAAP and should not be viewed as an alternative to GAAP measures of performance.

The following table reconciles shipments to net sales for the consolidated company, the dry foods segment and the frozen foods segment for the three and six months ended July 1, 2007 and the three and six months ended June 25, 2006.

For the three months ended,

	Consolidated		Dry Foods		Frozen Foods	
	July 1, 2007	June 25, 2006	July 1, 2007	June 25, 2006	July 1, 2007	June 25, 2006
Shipments	\$ 482.7	\$ 501.3	\$ 291.5	\$ 298.5	\$ 191.2	\$ 202.8
Less: Aggregate trade marketing and consumer coupon redemption expenses	114.4	132.7	66.3	78.5	48.1	54.2
Less: Slotting expense	2.4	2.9	1.4	1.8	1.0	1.1
Net sales	<u>\$ 365.9</u>	<u>\$ 365.7</u>	<u>\$ 223.8</u>	<u>\$ 218.2</u>	<u>\$ 142.1</u>	<u>\$ 147.5</u>

For the six months ended,

	Consolidated		Dry Foods		Frozen Foods	
	July 1, 2007	June 25, 2006	July 1, 2007	June 25, 2006	July 1, 2007	June 25, 2006
Shipments	\$ 1,002.1	\$ 936.7	\$ 540.0	\$ 488.8	\$ 462.1	\$ 447.9
Less: Aggregate trade marketing and consumer coupon redemption expenses	246.1	241.6	121.0	128.5	125.1	113.1
Less: Slotting expense	13.5	15.5	1.6	5.6	11.9	9.9
Net sales	<u>\$ 742.5</u>	<u>\$ 679.6</u>	<u>\$ 417.4</u>	<u>\$ 354.7</u>	<u>\$ 325.1</u>	<u>\$ 324.9</u>

## Consolidated statements of operations

The following tables set forth statement of operations data expressed in dollars and as a percentage of net sales. In accordance with GAAP, the results for the six months ended June 25, 2006 only include the results of operations of the Armour business from the date of acquisition, March 1, 2006, through the end of the period.

	Three months ended				Six months ended			
	July 1, 2007		June 25, 2006		July 1, 2007		June 25, 2006	
Net sales	\$ 365.9	100.0%	\$ 365.7	100.0%	\$ 742.5	100.0%	\$ 679.6	100.0%
Costs and expenses								
Cost of products sold	316.4	86.5%	292.7	80.0%	608.5	82.0%	546.6	80.4%
Marketing and selling expenses	36.5	10.0%	26.3	7.2%	68.5	9.2%	50.4	7.4%
Administrative expenses	18.1	4.9%	12.8	3.5%	31.8	4.3%	26.4	3.9%
Research and development expenses	1.3	0.4%	1.0	0.3%	2.4	0.3%	1.9	0.3%
Other expense (income), net	51.0	13.9%	3.1	0.8%	53.0	7.1%	4.8	0.7%
Total costs and expenses	423.3	115.7%	335.9	91.9%	764.2	102.9%	630.1	92.7%
(Loss) earnings before interest and taxes	\$ (57.4)	-15.7%	\$ 29.8	8.1%	\$ (21.7)	-2.9%	\$ 49.5	7.3%

	Three months ended		Six months ended	
	July 1, 2007	June 25, 2006	July 1, 2007	June 25, 2006
Net sales				
Dry foods	\$ 223.8	\$ 218.2	\$ 417.4	\$ 354.8
Frozen foods	142.1	147.5	325.1	324.8
Total	\$ 365.9	\$ 365.7	\$ 742.5	\$ 679.6
(Loss) earnings before interest and taxes				
Dry foods	\$ (1.8)	\$ 25.0	\$ 35.6	\$ 43.3
Frozen foods	(1.6)	9.2	2.4	15.8
Unallocated corporate expenses	(54.0)	(4.4)	(59.7)	(9.6)
Total	\$ (57.4)	\$ 29.8	\$ (21.7)	\$ 49.5
Depreciation and amortization				
Dry foods	\$ 5.7	\$ 6.5	\$ 11.4	\$ 10.2
Frozen foods	4.0	5.0	8.5	10.6
Total	\$ 9.7	\$ 11.5	\$ 19.9	\$ 20.8

### Three months ended July 1, 2007 compared to three months ended June 25, 2006

*Net sales.* Shipments in the three months ended July 1, 2007 were \$482.7 million, a decrease of \$18.6 million, compared to shipments in the three months ended June 25, 2006 of \$501.3 million. Net sales in the three months ended July 1, 2007 were \$365.9 million, an increase of \$0.2 million, compared to net sales in the three months ended June 25, 2006 of \$365.7 million. The slight increase in net sales was driven by a \$18.8 million decrease in aggregate trade marketing and consumer coupon redemption expenses and slotting expenses.

**Dry foods:** Shipments in the three months ended July 1, 2007 were \$291.5 million, a decrease of \$7.0 million. The decline in shipments was principally due to a decrease in Duncan Hines sales. Aggregate trade marketing and consumer coupon redemption expenses decreased \$12.6 million. As a result, dry foods net sales increased \$5.6 million. The net sales change was driven by a \$2.5 million increase in our Vlasic product lines sales, and a \$1.2 million increase in our Armour product line sales. The balance of the increase in net sales was related to our non branded private label and foodservice product sales.

**Frozen foods:** Shipments in the three months ended July 1, 2007 were \$191.2 million, a decrease of \$11.6 million. The change was principally driven by a decline in our Seafood business sales. Last year, Seafood second quarter sales were unusually high following finished product supply issues attributed to the delayed start up of a new production line in the first quarter of 2006. Aggregate trade and consumer coupon redemption expenses decreased \$6.2 million, the result of lower spending in the Seafood business. As a result, frozen foods net sales decreased \$5.45 million, again principally resulting from the Seafood business.

*Cost of products sold.* Our cost of products sold was \$316.4 million, or 86.5% of net sales in the three months ended July 1, 2007, versus cost of products sold of \$292.7 million, or 80.0% of net sales in the three months ended June 25, 2006. Included in the cost of products sold for the three months ended July 1, 2007 were \$35.9 million related to post-acquisition sales of inventories written up to fair value at the date of the Blackstone Transaction and \$1.2 million of stock compensation expense also related to the Blackstone Transaction. Included in the cost of products sold for the three months ended June 25, 2006 was \$2.5 million related to post-acquisition sales of inventories written up to fair value at the date of the Armour acquisition. The remaining cost of products sold in the three months ended July 1, 2007 was \$279.3 million or 76.4% of net sales, a 3.0 percentage point improvement versus the remaining cost of product sold for the three months ended June 25, 2006 of \$290.2 million or 79.3% of net sales. The principal driver of the improved cost of product sold as a percent of net sales rate was a decrease in aggregate trade marketing (including the slotting mentioned above) and consumer coupon redemption expenses that are classified as reductions to net sales. The change in these costs accounted for 2.3 percentage points of lower costs in 2007. Additionally, there was a decrease in freight and distribution expenses accounting for a 1.2 percentage point improvement in cost of product sold as a percent of net sales. The balance of the change in cost of product sold as a percent of net sales was an unfavorable mix of product sold versus the three months ended June 25, 2006, mainly due to lower sales in our Seafood business, and commodity cost increases.

*Marketing and selling expenses.* Marketing and selling expenses were \$36.5 million, or 10.0% of net sales, in the three months ended July 1, 2007 compared to \$26.3 million, or 7.2% of net sales, in the three months ended June 25, 2006. Included in the expenses for the three months ended July 1, 2007 was \$2.9 million of stock compensation expense related to the acceleration of the vesting in the Predecessor's stock options as a result of the Blackstone Transaction. For the remaining expenses, the increase was principally due to higher advertising expense of \$6.5 million, mainly in support of our Syrup, Vlasic, and Seafood businesses.

*Administrative expenses.* Administrative expenses were \$18.1 million, or 4.9% of net sales, in the three months ended July 1, 2007 compared to \$12.8 million, or 3.5% of net sales, in the three months ended June 25, 2006. Included in the expenses for the three months ended July 1, 2007 was \$3.9 million of stock compensation expense related to the acceleration of the vesting in the Predecessor's stock options as a result of the Blackstone Transaction. The balance of the increase in 2007 was due to higher personnel costs related to capability building initiatives.

*Research and development expenses.* Research and development expenses were \$1.3 million, or 0.4% of net sales, in the three months ended July 1, 2007 compared with \$1.0 million, or 0.3% of net sales, in the three months ended June 25, 2006. Included in the expenses for the three months ended July 1, 2007 was \$0.3 million of stock compensation expense related to the acceleration of the vesting in the Predecessor's stock options as a result of the Blackstone Transaction.

*Other expense (income), net.* The following table shows other expense (income), net:

In thousands	Three months ended	
	July 1, 2007	June 25, 2006
Other expense (income), net consists of:		
Restructuring and impairment charges	\$ 13	\$ 544
Amortization of intangibles/other assets	1,911	2,390
Merger related costs	49,129	
Royalty expense (income), net and other	(24)	82
Total other expense (income), net	\$ 51,029	\$ 3,016

Included in the expense for the three months ended July 1, 2007 was \$49.1 million of merger costs related to the Blackstone transaction (see Note 6 to the Consolidated Financial Statements). These costs included \$35.5 million related to the cash tender offer for the Predecessor's 8¼% Senior Subordinated Notes, \$12.9 million related to the termination of certain of the Predecessor's contracts, and \$0.7 million related to payroll taxes. Amortization was \$1.9 million in the three months ended July 1, 2007 as compared to \$2.4 million in the three months ended June 25, 2006. The 2006 amortization expense included amortization of a license which ended in June 2006. For the three months ended June 25, 2006, restructuring and impairment charges totaled \$0.5 million and were principally related to the closure of our Erie, Pennsylvania frozen food facility.

*Earnings (loss) before interest and taxes.* Earnings (loss) before interest and taxes (EBIT) decreased \$87.2 million to a loss of \$57.4 million in the three months ended July 1, 2007 from \$29.8 million in EBIT in the three months ended June 25, 2006. Included in the three months ended July 1, 2007 is \$8.4 million of stock compensation expense and \$49.1 million of merger costs (see Note 6 to the Consolidated Financial Statements), both related to the Blackstone Transaction. The merger costs of \$49.1 million are included in the unallocated corporate expenses. Also included are costs of products sold related to the post-acquisition sales of inventories written up to fair value at the date of the Blackstone Transaction of \$35.9 million in the three months ended July 1, 2007, and \$2.5 million related to post-acquisition sales of inventories written up to fair value at the date of the Armour acquisition in the three months ended June 25, 2006. The earnings (loss) before interest and taxes (EBIT) decrease resulted from a \$26.8 million decrease in dry foods EBIT, a \$10.8 million decrease in frozen foods EBIT, and a \$49.6 million increase in unallocated corporate expenses.

**Dry foods:** Dry foods EBIT decreased \$26.8 million in the three months ended July 1, 2007, to a loss of \$1.8 million from \$25.0 million, and included \$5.0 million of stock compensation expense related to the Blackstone Transaction. In addition, the three months ended July 1, 2007 included a \$26.6 million charge related to post-acquisition sales of inventories written up to fair value at the date of the Blackstone Transaction. Included in the cost of products sold for the three months ended June 25, 2006 was a \$2.5 million charge related to post-acquisition sales of inventories written up to fair value at the date of the Armour acquisition. The balance of the dry foods EBIT increased \$2.3 million, principally driven by decreased aggregate trade marketing (including the slotting mentioned above) and consumer coupon redemption expenses which offset the impact of lower sales volume and higher advertising spending.

**Frozen foods:** Frozen foods EBIT decreased by \$10.8 million in the three months ended July 1, 2007, to a loss of \$1.6 million from \$9.2 million, and included \$3.3 million of stock compensation expense related to the Blackstone Transaction. In addition, the three months ended July 1, 2007 included a \$9.3 million charge related to post-acquisition sales of inventories written up to fair value at the date of the Blackstone Transaction. The balance of the frozen foods EBIT increased \$1.8 million, principally driven by decreased aggregate trade marketing (including the slotting mentioned above) and consumer coupon redemption expenses which offset the impact of lower sales volume and increased overhead costs.

*Interest expense, net.* Interest expense, net was \$43.9 million in the three months ended July 1, 2007, compared to \$21.6 million in the three months ended June 25, 2006. Included in the interest expense, net, amount was \$0.9 million and \$0.8 million for the three months ended July 1, 2007 and the three months ended June 25, 2006, respectively, recorded from gains on interest rate swap agreements. 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 not designated as hedges under SFAS 133 are recorded as an adjustment to interest expense. Our 2007 interest rate swaps are designated as hedges under SFAS 133 and included in Other Comprehensive Income in the three months ended July 1, 2007 was \$9.0 million resulting from mark to market of these swaps. Also included in the interest expense, net, in the three months ended July 1, 2007, are a charge of \$24.1 million for the unamortized portion of the deferred financing costs and a credit of \$5.2 million for the unamortized portion of the original issue premium, both related to the redemption of the Predecessor's debt. Excluding the impact of the interest rate swaps and the items in the previous sentence, the increase in interest expense, net, of \$22.4 million was the result of higher average bank debt levels (\$12.5 million), higher interest rates on our bank borrowings (\$0.7 million), higher bond levels and interest rates (\$6.0 million, \$3.7 million due to higher levels, \$2.3 million due to higher rates), higher amortization of debt issue costs resulting principally from the Blackstone Transaction bridge financing (\$3.4 million), partially offset by higher interest income (\$0.2 million).

*Provision for income taxes.* The effective tax rate was -3.7% in the three months ended July 1, 2007, compared to 86.6% in the three months ended June 25, 2006. We maintain a full valuation allowance against net deferred tax assets excluding indefinite lived intangible assets, and the difference between the statutory rate and the effective rate difference is primarily due to the change in the valuation allowance for the three month period. Deferred tax liabilities are recognized for the differences between the book and tax bases of certain goodwill and indefinite lived intangible assets.

Under Internal Revenue Code Section 382, the Company is a loss corporation. Section 382 of the Internal Revenue Code places limitations on our ability to use net operating loss carry forwards to offset our income. The annual net operating loss limitation is approximately \$13 to \$17 million subject to other rules and restrictions.

#### **Six months ended July 1, 2007 compared to six months ended June 25, 2006**

*Net sales.* Shipments in the six months ended July 1, 2007 were \$1,002.1 million, an increase of \$65.4 million, compared to shipments in the six months ended June 25, 2006 of \$936.7 million. The Armour acquisition resulted in \$46.8 million of increased shipments. All other businesses increased \$18.6 million. Net sales in the six months ended July 1, 2007 were \$742.5 million, an increase of \$62.9 million, compared to net sales in the six months ended June 25, 2006 of \$679.6 million. The Armour acquisition resulted in \$40.1 million of increased net sales. Net sales of all other businesses increased \$22.8 million, which was the result of an increase in shipments of \$18.6 million and a \$4.2 million decrease in aggregate trade marketing and consumer coupon redemption expenses and slotting expenses.

**Dry foods:** Shipments in the six months ended July 1, 2007 were \$540.0 million, an increase of \$51.2 million. The Armour acquisition resulted in \$46.8 million of increased shipments. The increase in our remaining businesses was due to increases in our Vlasic and syrup product line sales, offsetting declines in our Duncan Hines product line sales. Aggregate trade marketing and consumer coupon redemption expenses decreased \$11.5 million. The Armour acquisition resulted in \$6.7 million of increased aggregate trade marketing and consumer coupon redemption expenses. On the remaining businesses, aggregate trade marketing and consumer coupon redemption expenses decreased \$18.2 million. As a result, dry foods net sales increased \$62.7 million, of which \$40.1 million of the increase resulted from the sales of products related to the acquisition of the Armour business. The net sales of the remaining businesses increased \$22.6 million, or 7.7%, for the six months ended July 1, 2007, led by our Vlasic product line, and principally due to decreased aggregate trade marketing and consumer coupon redemption expenses.

**Frozen foods:** Shipments in the six months ended July 1, 2007 were \$462.1 million, an increase of \$14.2 million. The change was driven by a \$12.0 million increase in our Seafood business sales. Last year, Seafood sales were depressed by finished product supply issues attributed to the delayed start up of a new production line. The balance of the change was driven by increases in Canada and our Lenders and Celeste product lines sales, offsetting declines in our Swanson product line sales. Aggregate trade and consumer coupon redemption expenses increased \$14.0 million, the result of higher spending in the Seafood business, as well as slotting on the new Swanson Classics products. As a result, frozen foods net sales increased \$0.2 million for the six months ended July 1, 2007.

*Cost of products sold.* Our cost of products sold was \$608.5 million, or 82.0% of net sales in the six months ended July 1, 2007, versus cost of products sold of \$546.6 million, or 80.4% of net sales in the six months ended June 25, 2006. Included in the cost of products sold for the six months ended July 1, 2007 were \$35.9 million related to post-acquisition sales of inventories written up to fair value at the date of the Blackstone Transaction and \$1.2 million of stock compensation expense also related to the Blackstone Transaction. The products acquired in the Armour business resulted in an additional \$24.2 million of cost of products sold in the six months ended July 1, 2007. Included in the cost of products sold for the Armour business for the six months ended June 25, 2006 was \$4.6 million related to post-acquisition sales of inventories written up to fair value at the date of the Armour acquisition. For the remaining businesses cost of products sold was 76.2% of net sales, or a 2.7 percentage point improvement. The principal driver of the improved cost of product sold as a percent of net sales rate was reduced freight and distribution expenses accounting for a 1.4 percentage point improvement. Additionally, there was a decrease in aggregate trade marketing (including the slotting mentioned above) and consumer coupon redemption expenses that are classified as reductions to net sales. The change in these costs accounted for 1.0 percentage points of lower costs in 2007. The balance of the improvement was the result of favorable product costs, mainly due to absorption improvements on our base businesses which offset commodity cost increases.

*Marketing and selling expenses.* Marketing and selling expenses were \$68.5 million, or 9.2% of net sales, in the six months ended July 1, 2007 compared to \$50.4 million, or 7.4% of net sales, in the six months ended June 25, 2006. Included in the expenses for the six months ended July 1, 2007 was \$2.9 million of stock compensation expense related to the acceleration of the vesting in the Predecessor's stock options as a result of the Blackstone Transaction. The acquisition of the Armour business contributed \$0.8 million of an increase for the six months ended July 1, 2007. The remaining increase was principally due to higher advertising expense of \$12.0 million, primarily in our seafood, syrups, and Hungry-Man businesses. The balance of the increase was due to higher marketing and selling overhead expense.

*Administrative expenses.* Administrative expenses were \$31.8 million, or 4.3% of net sales, in the six months ended July 1, 2007 compared to \$26.4 million, or 3.9% of net sales, in the six months ended June 25, 2006. Included in the expenses for the six months ended July 1, 2007 was \$3.9 million of stock compensation expense related to the acceleration of the vesting in the Predecessor's stock options as a result of the Blackstone Transaction. The balance of the increase in 2007 was due to higher personnel costs related to capability building initiatives.

*Research and development expenses.* Research and development expenses were \$2.4 million, or 0.3% of net sales, in the six months ended July 1, 2007 compared with \$1.9 million, or 0.3% of net sales, in the six months ended June 25, 2006. Included in the expenses for the three months ended July 1, 2007 was \$0.3 million of stock compensation expense related to the acceleration of the vesting in the Predecessor's stock options as a of the result Blackstone Transaction.

*Other expense (income), net.* The following table shows other expense (income), net:

In thousands	Six months ended	
	July 1, 2007	June 25, 2006
Other expense (income), net consists of:		
Restructuring and impairment charges	\$ 59	\$ 995
Amortization of intangibles/other assets	3,822	3,593
Merger related costs	49,129	
Royalty expense (income), net and other	(68)	138
Total other expense (income), net	<u>\$ 52,942</u>	<u>\$ 4,726</u>

Included in the expense for the six months ended July 1, 2007 was \$49.1 million of merger costs related to the Blackstone transaction (see Note 6 to the Consolidated Financial Statements). These costs included \$35.5 million related to the cash tender offer for the Predecessor's 8¼% Senior Subordinated Notes, \$12.9 million related to the termination of certain of the Predecessor's contracts, and \$0.7 million related to payroll taxes. Amortization was \$3.8 million in the six months ended July 1, 2007 as compared to \$3.6 million in the six months ended June 25, 2006. For the six months ended June 25, 2006, restructuring and impairment charges totaled \$1.0 million and were principally related to the closure of our Erie, Pennsylvania frozen food facility.

*Earnings (loss) before interest and taxes.* Earnings (loss) before interest and taxes (EBIT) decreased \$71.2 million to a loss of \$21.7 million in the six months ended July 1, 2007 from \$49.5 million in EBIT in the six months ended June 25, 2006. Included in the six months ended July 1, 2007 is \$8.4 million of stock compensation expense and \$49.1 million of merger costs (see Note 6 to the Consolidated Financial Statements), both related to the Blackstone Transaction. The merger costs of \$49.1 million are included in the unallocated corporate expenses. Also included are costs of products sold related to the post-acquisition sales of inventories written up to fair value at the date of the Blackstone Transaction of \$35.9 million in the six months ended July 1, 2007, and \$4.6 million related to post-acquisition sales of inventories written up to fair value at the date of the Armour acquisition in the six months ended June 25, 2006. The earnings (loss) before interest and taxes (EBIT) decrease resulted from a \$7.7 million decrease in dry foods EBIT, a \$13.4 million decrease in frozen foods EBIT, and a \$50.1 million increase in unallocated corporate expenses.

**Dry foods:** Dry foods EBIT decreased \$7.7 million in the six months ended July 1, 2007, to \$35.6 million from \$43.3 million, and include a \$16.4 million increase related to the acquisition of the Armour business. Included in the Armour results is a \$4.6 million charge related to post-acquisition sales of inventories written up to fair value at the date of the Armour acquisition in the six months ended June 25, 2006. In addition, the six months ended July 1, 2007 included a \$26.6 million charge related to post-acquisition sales of inventories written up to fair value at the date of the Blackstone Transaction and \$5.0 million of stock compensation expense also related to the Blackstone Transaction. The balance of the dry foods EBIT increased \$7.5 million, principally driven by \$18.1 million of decreased aggregate trade marketing (including the slotting mentioned above) and consumer coupon redemption expenses and increased sales volume. These favorable impacts were somewhat offset by increased cost of product sold and higher advertising expense.

**Frozen foods:** Frozen foods EBIT decreased by \$13.4 million in the six months ended July 1, 2007, to \$2.4 million from \$15.8 million, and included \$3.3 million of stock compensation expense related to the Blackstone Transaction. In addition, the three months ended July 1, 2007 included a \$9.3 million charge related to post-acquisition sales of inventories written up to fair value at the date of the Blackstone Transaction. The balance of the frozen foods EBIT decreased by \$0.8 million and was principally driven by increases in marketing spending, mainly in trade promotions and slotting expense, both of which are recorded as reductions from net sales, and higher advertising expense, most of which was in the Seafood business. Somewhat offsetting the increased marketing spending was the favorable impact of higher sales volumes and the impact of lower costs of product sold, resulting from lower freight and storage expense, and improved cost rates.

*Interest expense, net.* Interest expense, net was \$63.6 million in the six months ended July 1, 2007, compared to \$41.0 million in the six months ended June 25, 2006. Included in the interest expense, net, amount was \$0.5 million and \$1.3 million for the six months ended July 1, 2007 and the six months ended June 25, 2006, respectively, recorded from gains on interest rate swap agreements. 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 not designated as hedges under SFAS 133 are recorded as an adjustment to interest expense. Our 2007 interest rate swaps are designated as hedges under SFAS 133 and included in Other Comprehensive Income in the six months ended July 1, 2007 was \$9.0 million resulting from mark to market of these swaps. Also included in the interest expense, net, in the six months ended July 1, 2007, are a charge of \$24.1 million for the unamortized portion of the deferred financing costs and a credit of \$5.2 million for the unamortized portion of the original issue premium, both related to the redemption of the Predecessor's debt. Excluding the impact of the interest rate swaps and the items in the previous sentence, the increase in interest expense, net, of \$21.8 million was the result of higher average bank debt levels (\$12.0 million), higher interest rates on our bank borrowings (\$0.2 million), higher bond levels and interest rates (\$6.0 million, \$3.7 million due to higher levels, \$2.3 million due to higher rates), higher amortization of debt issue costs resulting principally from the Blackstone Transaction bridge financing (\$4.1 million), partially offset by higher interest income (\$0.5 million).

*Provision for income taxes.* The effective tax rate was -10.4% in the six months ended July 1, 2007, compared to 162.4% in the six months ended June 25, 2006. We maintain a full valuation allowance against net deferred tax assets excluding indefinite lived intangible assets, and the difference between the statutory rate and the effective rate difference is primarily due to the change in the valuation allowance for the three month period. Deferred tax liabilities are recognized for the differences between the book and tax bases of certain goodwill and indefinite lived intangible assets.

## 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 and debt service. Capital expenditures are expected to be approximately \$27 million in 2007. We have historically satisfied our liquidity requirements with internally generated cash flows and availability under our revolving credit facilities.

### Statements of cash flows for the six months ended July 1, 2007 compared to June 25, 2006

Net cash provided by operating activities for the Successor was \$3.7 million the period from April 2, 2007 to July 1, 2007, which was the result of net loss excluding non-cash charges of \$29.5 million and a decrease in working capital of \$33.3 million. The decrease in working capital and the net loss excluding non-cash charges were both principally driven by a \$35.9 million charge related to the write up of inventories to the fair value at the date of the Blackstone Transaction.

Net cash provided by operating activities for the Predecessor was \$55.7 million for the period from January 1, 2007 to April 2, 2007, which was the result of net loss excluding non-cash charges of \$16.4 million and a decrease in working capital of \$72.1 million. The decrease in working capital was primarily the result of (a) a \$53.5 million increase in accrued liabilities, mostly as a result of the accrual of \$49.1 million of merger expenses related to the Blackstone Transaction, (b) a \$20.0 million decrease in inventories that was due to the sell down of the seasonal build from December 2006 and (c) a \$14.3 million increase in accounts payable. The increase in accounts payable at the end of the period primarily related the normal seasonal slowdown at our production facilities in December 2006 as well as optimizing our freight payment system. The increase in accrued liabilities and accounts payable and the decrease in inventories were offset by an \$18.3 million increase in accounts receivable that relates to higher sales as well as the timing of when those sales occurred. The aging of accounts receivable has remained unchanged from December. All other working capital accounts generated \$2.6 million of cash, primarily the result of higher accrued trade marketing.

Net cash provided by operating activities for the Predecessor was \$61.0 million for the six months ended June 25, 2006, which was the result of net earnings excluding non-cash earnings of \$34.5 million and a decrease in working capital of \$26.5 million. The decrease in working capital was primarily the result of a \$53.9 million decrease in inventories that was due to the sell down of the seasonal build from December 2005 and management's concerted effort to reduce the level of inventories while maintaining customer service levels. The decrease in inventories was offset by a \$36.1 million increase in accounts receivable that relates to higher sales related to the Armour acquisition as well as the timing of when sales occurred. The aging of accounts receivable has remained unchanged from December 2005. All other working capital accounts generated \$8.7 million of cash, primarily the result of higher accounts payable and accrued liabilities.

Net cash used in investing activities for the six months ended July 1, 2007 totaled \$1,328.6 million and included \$1,319.2 million for the Blackstone Transaction as well as \$11.6 million for capital expenditures (\$5.0 million for the Predecessor and \$6.6 million for the Successor). Additionally, the Successor received \$2.2 million from the sale of the Omaha, Nebraska facility. Net cash used in investing activities during the six months ended June 25, 2006 includes \$186.9 million for consideration paid for the Armour Business and \$8.9 million for capital expenditures.

Net cash provided by financing activities was \$1,289.9 million for the six months ended July 1, 2007. This primarily related to the borrowings for the Blackstone Transaction, which were \$1,250.0 million under the term loan under the Senior Secured Credit Facilities and \$575.0 million for the Senior and Senior Subordinated Notes, as well as the \$420.0 million in net equity contributions. These funds were offset by repayments of the Predecessor's long-term debt totaling \$915.2 and Successor's debt acquisition costs of \$39.8 million. Net cash provided by financing activities was \$143.9 million during the six months ended June 25, 2006, which principally included proceeds to fund the acquisition of the Armour Business. These proceeds included \$143.0 million in proceeds from the Senior Secured Credit Facilities and \$40.0 million in equity contributions. These proceeds were offset primarily by \$30.0 million in repayments of the term loan, \$3.7 million in debt acquisition costs and \$6.7 million decline in bank overdrafts.

## Debt

**Predecessor-** In November 2003, the Predecessor entered into a \$675.0 million Credit Agreement (“Senior Secured Credit Facilities”) with JPMorgan Chase Bank (a related party of JPMorgan Partners, LLC as noted in Note 13) and other financial institutions as lenders, which provides for a \$545.0 million seven-year term loan B facility, of which \$120.0 million was made available on November 25, 2003 and \$425.0 million was made available as a delayed draw term loan on the closing date of the Aurora Merger on March 19, 2004. Concurrently with the acquisition of the Armour Business but effective as of February 14, 2006, the Company entered into an Amendment No. 4 and Agreement to the Senior Secured Credit Facilities (“Amendment No. 4”). Among other things, Amendment No. 4 approved the Armour acquisition and provided for the making of \$143.0 million of additional tack-on term loans to fund a portion of the acquisition. The Senior Secured Credit Facilities also provided for a six-year \$130.0 million revolving credit facility, of which up to \$65.0 million was made available on November 25, 2003, and the remaining \$65.0 million was made available on the closing date of the Aurora Merger on March 19, 2004. There were no borrowings outstanding under the revolver as of December 31, 2006.

As of December 31, 2006, \$2,748 of our term loan was owed to affiliates of JPMorgan Chase Bank.

A commitment fee of 0.50% per annum was applied to the unused portion of the revolving credit facility. For the one day ended April 2, 2007, the weighted average interest rate on the term loan was 7.36%. There were no borrowings under the revolving credit facility during 2007. As of April 2, 2007, the Eurodollar interest rate on the term loan facility was 7.36% and the commitment fee on the undrawn revolving credit facility was 0.50%. For the six months ended June 25, 2006, the weighted average interest rate on the term loan was 7.82%, and on the revolving credit facility was 9.62%. As of June 25, 2006, the Eurodollar interest rate on the term loan facility was 7.10% and the commitment fee on the undrawn revolving credit facility was 0.50%.

In connection with the Blackstone Transaction described in Note 1, the Predecessor’s Senior Secured Credit Facilities were paid in full.

The Company paid a commission on the face amount of all outstanding letters of credit drawn under the Senior Secured Credit Facilities at a per annum rate equal to the Applicable Margin then in effect with respect to Eurodollar loans under the revolving credit loan facility minus the fronting fee (as defined). A fronting fee equal to 1/4% per annum on the face amount of each letter of credit is payable quarterly in arrears to the issuing lender for its own account. We also pay a per annum fee equal to 1/2% on the undrawn portion of the commitments in respect of the revolving credit facility. Total letters of credit issuable under the facilities could not exceed \$40,000. As of December 31, 2006 we had utilized \$9,222 of the revolving credit facility for letters of credit. Of the \$130,000 revolving credit facility available, as of December 31, 2006, we had an unused balance of \$120,778, available for future borrowings and letters of credit, of which a maximum of \$30,778 was available for letters of credit.

In November 2003 and February 2004, the Company issued \$200.0 million and \$194.0 million, respectively, 8.25% senior subordinated notes. The February 2004 notes resulted in gross proceeds of \$201.0 million, including premium. The terms of the February 2004 notes were the same as the November 2003 notes and were issued under the same indenture.

On March 8, 2007, the Predecessor commenced a cash tender offer to purchase any and all of the outstanding 8.25% Senior Subordinated Notes due 2013 (the “Existing Notes”) of the Company, and a related consent solicitation to amend the indenture pursuant to which the Existing Notes were issued. The tender offer and consent solicitation were made in connection with the Blackstone Transaction. The tender offer and consent solicitation were made upon the terms and conditions set forth in an Offer to Purchase and Consent Solicitation Statement dated March 8, 2007 and the related Consent and Letter of Transmittal. The total cost of the cash tender offer for the Existing Notes was \$35.5 million and was recorded as a charge in the Other Expense (income), net line of the Consolidated Statement of Operations of the Predecessor immediately before the Blackstone Transaction.

**Successor** - As part of the Blackstone Transaction as described in Note 1, Peak Finance LLC entered into a \$1,375.0 million credit agreement (the “Credit Agreement”) in the form of (i) Term Loans in an initial aggregate amount of \$1,250.0 million (“Senior Secured Credit Facility”) and (ii) Revolving Credit Commitments in the initial aggregate amount of \$125.0 million (the “Revolving Credit Facility”). The term loan matures April 2, 2014. The first scheduled payment for the term loan is in September 2007. The Revolving Credit Facility matures April 2, 2013. As of July 1, 2007, there were no borrowings under the Revolving Credit Facility. Peak Finance LLC merged with and into PFF on April 2, 2007 at the closing of the Blackstone Transaction.

Our borrowings under the Senior Secured Credit Facility bear interest at a floating rate and are maintained as base rate loans or as Eurodollar loans. The base rate loans bear interest at the base rate plus the applicable base rate margin, as defined in the Senior Secured Credit Facility. Base rate is defined as the higher of (i) the prime rate and (ii) the Federal Reserve reported overnight funds rate plus 1/2 of 1%. Eurodollar loans bear interest at the adjusted Eurodollar rate, as described in the Senior Secured Credit Facilities, plus the applicable Eurodollar rate margin.

The applicable margins with respect to our Revolving Credit Facility will vary from time to time in accordance with the terms thereof and agreed upon pricing grids based on our leverage ratio as defined the Credit Agreement. The applicable rate with respect to the Senior Secured Credit Facility and the Revolving Credit Facility is currently:

<u>Applicable Rate (per annum)</u>				
Eurocurrency Rate for Revolving Loans and Letter of Credit Fees	Base Rate for Revolving Loans	Commitment Fees Rate	Eurocurrency Rate for Term Loans	Base Rate for Term Loans
<u>2.75%</u>	<u>1.75%</u>	<u>0.50%</u>	<u>2.75%</u>	<u>1.75%</u>

The obligations under the Credit Agreement are unconditionally and irrevocably guaranteed by each of our direct or indirect domestic subsidiaries (collectively, the "Guarantors"). In addition, the Credit Agreement is collateralized by first priority or equivalent security interests in (i) all the capital stock of, or other equity interests in, each direct or indirect domestic subsidiary of the Company and 65% of the capital stock of, or other equity interests in, each direct foreign subsidiary of the Company, or any of its domestic subsidiaries and (ii) certain tangible and intangible assets of the Company and the Guarantors (subject to certain exceptions and qualifications).

A commitment fee of 0.50% per annum is applied to the unused portion of the Revolving Credit Facility. For the three months ended July 1, 2007, the weighted average interest rate on the term loan is 8.10%. The company borrowed \$10 million of the Revolving Credit Facility which was subsequently paid back during the second quarter. For the three months ended July 1, 2007, the weighted average interest rate on the Revolving Credit Facility is 10.0%. As of July 1, 2007, the Eurodollar interest rate on the term loan facility is 8.11% and the commitment fee on the undrawn revolving credit facility is 0.50%.

The Company pays a fee for all outstanding letters of credit drawn against our Revolving Credit Facility at an annual rate equivalent to the Applicable Rate then in effect with respect to Eurodollar loans under the Revolving Credit Facility, less 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 agreement cannot exceed \$25.0 million. As of July 1, 2007, we had utilized \$11,317 of the Revolving Credit Facility for letters of credit. Of the \$125,000 revolving credit facility available, we had an unused balance of \$113,683 available for future borrowing and letters of credit, of which \$13,683 can be used for letters of credit.

On April 2, 2007, as part of the Blackstone Transaction described in Note 1, the company issued \$325.0 million 9 1/4% Senior Notes (the "Senior Notes") due 2015, and \$250.0 million 10 5/8% Senior Subordinated Notes (the "Senior Subordinated Notes") due 2017. . The Senior Notes are general unsecured obligations of the Company, subordinated in right of payment to all existing and future senior secured indebtedness of the Company, and guaranteed on a full, unconditional, joint and several basis by the Company's wholly-owned domestic subsidiaries. The Senior Subordinated Notes are general unsecured obligations of the Company, subordinated in right of payment to all existing and future senior indebtedness of the Company, and guaranteed on a full, unconditional, joint and several basis by the Company's wholly-owned domestic subsidiaries. See Note 17 for Guarantor and Nonguarantor Financial Statements.

The Company may redeem some or all of the senior notes at any time prior to April 1, 2011, and some or all of the senior subordinated notes at any time prior to April 1, 2012, in each case at a price equal to 100% of the principal amount of 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 note; and (2) the excess, if any, of (a) the present value at such Redemption Date of (i) the redemption price of such Senior Note at April 1, 2011 or Senior Subordinated Note through at April 1, 2012, plus (ii) all required interest payments due on such Senior Note through April 1, 2011 or Senior Subordinated Note at April 1, 2012 (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 note.

The Company may redeem the Senior Notes or the Senior Subordinated Notes at the redemption prices listed below, if redeemed during the twelve-month period beginning on April of each of the years indicated below:

<u>Senior Notes</u>	
<u>Year</u>	<u>Percentage</u>
2011	104.625%
2012	102.313%
2013 and thereafter	100.000%

<u>Senior Subordinated Notes</u>	
<u>Year</u>	<u>Percentage</u>
2012	105.313%
2013	103.542%
2014	101.771%
2015 and thereafter	100.000%

In addition, until April 1, 2010, we may redeem up to 35% of the aggregate principal amount of Senior Notes or Senior Subordinated Notes issued by us at a redemption price equal to 100% of the aggregate principal amount thereof, plus a premium equal to the rate per annum on the Senior Notes or Senior Subordinated Notes, plus accrued and unpaid interest and Additional Interest, if any, to the Redemption Date, subject to the right of Holders of Senior Notes or Senior Subordinated 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 it from one or more Equity Offerings; *provided* that (i) at least 50% of the aggregate principal amount of Senior Notes or Senior Subordinated Notes originally issued under the Indenture remains outstanding immediately after the occurrence of each such redemption; and (ii) each such redemption occurs within 90 days of the date of closing of each such Equity Offering.

The Company and its subsidiaries, affiliates or significant shareholders (including The Blackstone Group L.P. and its affiliates) may from time to time, in their sole discretion, purchase, repay, redeem or retire any of the Company's outstanding debt or equity securities (including any publicly issued debt or equity securities), in privately negotiated or open market transactions, by tender offer or otherwise.

## **INFLATION**

Prior to 2005, inflation has not had a significant effect on us as we have been successful in mitigating the effects of inflation with aggressive cost reduction and productivity programs. From 2005 and 2007, we have experienced higher energy and commodity costs in production and higher fuel surcharges for product delivery. Although we have no such expectation, severe increases in inflation, however, could affect the North American economies and could have an adverse impact on our business, financial condition and results of operations.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes: An Interpretation of Statement of Financial Accounting Standards (“SFAS”) Statement No. 109.* This interpretation clarifies SFAS No. 109, Accounting for Income Taxes, to indicate a criterion that an individual tax position would have to meet for some or all of the benefit of that position to be recognized in an entity’s financial statements. See Note 16 for additional information.

In September 2006, the FASB issued SFAS No. 157, *“Fair Value Measurements”*. This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is assessing what impact, if any, adoption of this statement would have on its financial position, results of operations and cash flows.

The FASB also issued in September 2006 Statement of Financial Accounting Standards No. 158, *“Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)”*, (“SFAS No. 158”). This Standard requires recognition of the funded status of a benefit plan in the statement of financial position. The Standard also requires recognition in accumulated other comprehensive income certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. SFAS No. 158 provides recognition and disclosure elements to be effective for fiscal years ending after December 15, 2007 and measurement elements to be effective for fiscal years ending after December 15, 2008. Effective with the Blackstone Transaction, the company adopted the recognition and disclosure elements of SFAS No. 158.

In February 2007, the FASB issued SFAS No. 159, *“The Fair Value Option for Financial Assets and Liabilities”* (“SFAS No. 159”). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new guidance is effective for fiscal years beginning after November 15, 2007. The Company is assessing what impact, if any, adoption of this statement would have on its financial position, results of operations and cash flows.

### ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

#### FINANCIAL INSTRUMENTS

The Company may utilize derivative financial instruments to enhance our ability to manage risks, including interest rate, certain commodities and foreign currency, which exist as part of ongoing business operations. We do not enter into contracts for speculative purposes, nor are we a party to any leveraged derivative instrument. We monitor the use of derivative financial instruments through regular communication with senior management and third party consultants as well as the utilization of written guidelines.

#### Interest Rate Risk

The Company relies primarily on bank borrowings to meet our funding requirements. We utilize interest rate swap agreements or other derivative instruments to reduce the potential exposure to interest rate movements and to achieve a desired proportion of variable versus fixed rate debt. We will recognize the amounts that we pay or receive on hedges related to debt as an adjustment to interest expense.

The Predecessor had entered into interest rate swap agreements with counterparties to effectively change a portion of the floating rate payments on its senior secured credit facilities into fixed rate payments. As of the date of the Blackstone Transaction, one swap agreement remained outstanding. The agreement was terminated as part of the Blackstone Transaction at a cost of \$2,475. The difference between the mark-to-market adjustment at April 1, 2007 (\$2,299) and the cash settlement was recorded as interest expense in the Consolidated Statement of Operations during the quarter ended July 1, 2007. As of December 31, 2006, the Predecessor had two interest rate swaps in place with a net fair value at the time of a loss of \$847, which was recorded as a long term liability (\$1,882) and other current asset (\$1,035) in the Consolidated Balance Sheet.

After the Blackstone Transaction was completed, the Successor entered into a new interest rate swap agreement and an interest rate collar agreement.

In accordance with SFAS No. 133 (as amended), “*Accounting for Derivative Instruments and Hedging Activities*”, the Company has designated the interest rate swap as a cash flow hedge of the risk of changes attributable to interest rate risk in the Company’s first previously unhedged LIBOR-indexed interest payments made each quarter until the maturity date of the swap that, in the aggregate for each period, are interest payments on an amount of debt principal corresponding to the outstanding swap notional amount of the Company’s then-existing LIBOR-based floating rate debt that reprices on and then closest following the second day of each January, April, July, and October (the hedged transactions). The interest rate swap contains the following terms:

- Notional amount: \$976,250 amortizing to \$63,651
- Fixed rate: 4.958%
- Index: 3 mo. USD-LIBOR-BBA
- Effective Date: April 02, 2007
- Maturity Date: April 02, 2012

In accordance with SFAS No. 133, the interest rate collar has also been designated as a cash flow hedge of the changes in the forecasted floating-rate interest payments attributable to changes in 3-month USD-LIBOR-BBA above 5.50% and below 4.39% (the “strike rates”) on the first previously unhedged 3-month USD-LIBOR-BBA interest payments on the Company’s then-existing 3-month USD-LIBOR-BBA-based debt having a principal amount corresponding to the outstanding notional amount of the collar that resets on the second day of each January, April, July, and October until the maturity date of the collar. The collar has an effective date of April 2, 2008 and a maturity date of April 2, 2012. Should 3-month USD-LIBOR-BBA fall below 4.39% on a rate reset date during the period from April 2, 2008 to April 2, 2012, the Company will pay the Counterparty the amount equal to the outstanding notional amount of the collar multiplied by a spread [equalling 4.39% minus 3-month USD-LIBOR-BBA] multiplied by the number of days in the period divided by 360. Should 3-month USD-LIBOR-BBA rise above 5.50% on a rate reset date during the period from April 2, 2008 to April 2, 2012, the Counterparty will pay the Company the amount equal to the outstanding notional amount on the collar multiplied by a spread [equalling 3-month USD-LIBOR-BBA minus 5.50%] multiplied by the number of days in the period divided by 360.

As of July 1, 2007, the fair value of the interest rate swap contract was a gain of \$10,081 which is recorded in the Other assets, net category of the Consolidated Balance Sheet. The offset was recorded as a gain in Accumulated Other Comprehensive Income (\$9,126, \$5,795 net of income taxes) and Interest Expense (\$955).

## Commodity Risk

The Predecessor had entered into various natural gas swap transactions with JP Morgan Chase Bank (a related party of the Predecessor) to lower the Company's exposure to the price of natural gas. As of April 1, 2007, the trades in effect matured from April through June 2007 and had various notional quantities of MMBTU's per month. The Company paid a fixed price ranging from \$7.16 to \$7.33 per MMBTU, with settlements monthly.

As of December 31, 2006 the fair value of the natural gas swaps was a loss of \$160, and was recorded in accrued liabilities. The related offset was recorded as a loss and was recognized as an increase to cost of products sold.

After the Blackstone Transaction was completed, the Successor entered into new natural gas swap transactions to lower the Company's exposure to the price of natural gas. As of July 1, 2007 the trades in effect mature from November through December 2007 and had various notional quantities of MMBTU's per month. The Company paid a fixed price ranging from \$7.29 to \$8.42 per MMBTU, with settlements monthly.

As of July 1, 2007, the fair value of the natural gas swaps was a loss of \$79, and is recorded in accrued liabilities. The related offset is recorded as a loss and was recognized as an increase to cost of products sold.

Neither the Predecessor nor the Successor swap contracts were designated as hedges pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

Gains and losses on the natural gas swaps, which were recorded as a component of cost of products sold in the Consolidated Statement of Operations, are detailed below.

<u>Natural Gas Swaps</u>	Three months ended		
	Successor	Predecessor	
	Three months ended	Three months ended	
	July 1, 2007	April 2, 2007	June 25, 2006
Non-cash gain (loss)	\$ (124)	\$ -	\$ 30
Gain (loss) realized in cash	30	-	(300)
Net gain on natural gas swaps	<u>\$ (94)</u>	<u>\$ -</u>	<u>\$ (270)</u>

  

	Six months ended		
	Successor	Predecessor	
	Three months ended	January 1, 2007 to	Six months ended
	July 1, 2007	April 2, 2007	June 25, 2006
Non-cash gain (loss)	\$ (124)	\$ 205	\$ (389)
Gain (loss) realized in cash	30	(84)	(670)
Net gain (loss) on natural gas swaps	<u>\$ (94)</u>	<u>\$ 121</u>	<u>\$ (1,059)</u>

## Foreign Exchange Risk

The Predecessor and Successor entered into various foreign currency exchange transactions to lower the Company's exposure to the exchange rate between the U.S. dollar and the Canadian dollar. Each agreement is based upon a notional amount in Canadian dollars, which is expected to approximate a portion of the amount of our Canadian subsidiary's U.S. dollar denominated purchases for the month. While the Predecessor had contracts outstanding during 2006, there were no outstanding contracts at December 31, 2006. The trades outstanding as of July 1, 2007 run through April 2012. We pay a fixed exchange rate of Canadian dollars per U.S. dollar, with settlements monthly. These swaps were not designated as hedges pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

As of July 1, 2007 the fair value of the foreign currency exchange contracts was a loss of \$1,659 for which \$1,177 is recorded in Accrued liabilities in the Consolidated Balance Sheet, and \$482 is recorded in Other long-term liabilities. Gains and losses on the foreign currency exchange contracts, which were recorded as a component of cost of products sold in the Consolidated Statement of Operations, are detailed below.

<u>Foreign currency exchange contracts</u>	Three months ended		
	Successor	Predecessor	
	Three months ended		Three months ended
	July 1, 2007	April 2, 2007	June 25, 2006
Non-cash gain	\$ (1,659)	\$ -	\$ (372)
Loss realized in cash	(254)	-	(225)
Net loss on foreign currency exchange contracts	<u>\$ (1,913)</u>	<u>\$ -</u>	<u>\$ (597)</u>

  

	Six months ended		
	Successor	Predecessor	
	Three months ended	January 1, 2007 to	Six months ended
	July 1, 2007	April 2, 2007	June 25, 2006
Non-cash gain	\$ (1,659)	\$ -	\$ (273)
Loss realized in cash	(254)	-	(225)
Net loss on foreign currency exchange contracts	<u>\$ (1,913)</u>	<u>\$ -</u>	<u>\$ (498)</u>

The Company utilizes irrevocable standby letters of credit with one-year renewable terms to satisfy workers' compensation self-insurance security deposit requirements. Prior to the Blackstone Transaction, the Predecessor's contract value of the outstanding standby letters of credit as of December 31, 2006 was \$7,846, which approximated fair value. As of December 31, 2006, we also utilized letters of credit in connection with the purchase of raw materials in the amount of \$1,376, which approximates fair value. After the Blackstone Transaction, the Successor's contract value of the outstanding standby letters of credit to satisfy workers' compensation self-insurance security deposits as of July 1, 2007 was \$9,971, which approximates fair value. As of July 1, 2007, we also utilized letters of credit in connection with the purchase of raw materials in the amount of \$1,346, which approximates fair value.

The Company is exposed to credit loss in the event of non-performance by the other parties to derivative financial instruments. All counterparties are at least "A-" rated or equivalent by Standard & Poor's and Moody's. Accordingly, we do not anticipate non-performance by the counterparties.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value. The estimated fair value of the Senior Secured Credit Facilities bank debt, the 9 1/4% senior notes, and the 10 5/8% senior subordinated notes that are classified as long term debt on the Consolidated Balance Sheet at July 1, 2007, was approximately carrying value.