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**Report to the Holders of \$325,000,000 Aggregate Principal Amount of  
9<sup>1</sup>/<sub>4</sub>% Senior Notes due 2015 and the \$250,000,000 Aggregate Principal  
Amount of 10 <sup>5</sup>/<sub>8</sub>% Senior Subordinated Notes due 2017.**

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

**Pinnacle Foods Group Inc.**

**Delaware**

(State or other jurisdiction of incorporation or organization)

**94-3303521**

(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**

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**PART I – FINANCIAL INFORMATION**

**ITEM 1: FINANCIAL STATEMENTS**

*Unaudited consolidated financial statements begin on the following page*

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

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	Three months ended	
	April 1, 2007	March 26, 2006
	<u>          </u>	<u>          </u>
Net sales	<u>\$ 376,587</u>	<u>\$ 313,885</u>
Costs and expenses		
Cost of products sold	292,019	253,893
Marketing and selling expenses	32,044	24,092
Administrative expenses	13,779	13,597
Research and development expenses	1,102	932
Other expense (income), net	<u>1,913</u>	<u>1,710</u>
Total costs and expenses	<u>340,857</u>	<u>294,224</u>
Earnings before interest and taxes	35,730	19,661
Interest expense	20,217	19,522
Interest income	<u>486</u>	<u>139</u>
Earnings before income taxes	<u>15,999</u>	<u>278</u>
Provision for income taxes	<u>6,370</u>	<u>6,698</u>
Net earnings (loss)	<u>\$ 9,629</u>	<u>\$ (6,420)</u>

*See accompanying Notes to Unaudited Consolidated Financial Statements*

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

	April 1, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	\$ 16,701	\$ 12,337
Accounts receivable, net	103,921	85,583
Inventories, net	158,255	178,300
Other current assets	4,004	4,496
Deferred tax assets	2,551	1,838
Total current assets	<u>285,432</u>	<u>282,554</u>
Plant assets, net	251,292	253,387
Tradenames	797,582	797,582
Other assets, net	52,509	56,397
Goodwill	403,231	402,161
Total assets	<u>\$ 1,790,046</u>	<u>\$ 1,792,081</u>
Current liabilities:		
Current portion of long-term obligations	\$ 277	\$ 123
Notes payable	-	210
Accounts payable	70,927	57,543
Accrued trade marketing expense	39,905	37,152
Accrued liabilities	85,392	81,248
Accrued income taxes	69	1,042
Total current liabilities	<u>196,570</u>	<u>177,318</u>
Long-term debt (includes \$2,748 owed to a related party at December 31, 2006)	876,254	920,630
Pension and other postretirement benefits	16,762	16,109
Other long-term liabilities	7,590	1,962
Deferred tax liabilities	244,719	237,707
Total liabilities	<u>1,341,895</u>	<u>1,353,726</u>
Commitments and contingencies		
Shareholder's equity:		
Pinnacle Common stock: par value \$.01 per share, 100 shares authorized, issued 100 shares	-	-
Additional paid-in-capital	573,834	573,403
Accumulated other comprehensive income (loss)	157	161
Carryover of Predecessor basis of net assets	(17,338)	(17,338)
Accumulated deficit	(108,502)	(117,871)
Total shareholder's equity	<u>448,151</u>	<u>438,355</u>
Total liabilities and shareholder's equity	<u>\$ 1,790,046</u>	<u>\$ 1,792,081</u>

*See accompanying Notes to Unaudited Consolidated Financial Statements*

**PINNACLE FOODS GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

	Three months ended	
	April 1, 2007	March 26, 2006
Cash flows from operating activities		
Net earnings (loss) from operations	\$ 9,629	\$ (6,420)
Non-cash charges (credits) to net earnings (loss)		
Depreciation and amortization	10,163	9,286
Amortization of debt acquisition costs	1,977	1,290
Amortization of bond premium	(149)	(138)
Change in value of financial instruments	1,247	(168)
Stock-based compensation charge	405	1,715
Postretirement healthcare benefits	294	2
Pension expense	360	365
Other long-term liabilities	2,464	80
Deferred income taxes	6,299	6,477
Changes in working capital, net of acquisition		
Accounts receivable	(18,339)	(18,588)
Inventories	20,045	13,828
Accrued trade marketing expense	2,754	793
Accounts payable	14,286	5,105
Accrued liabilities	4,113	11,421
Other current assets	136	1,583
Net cash provided by operating activities	<u>55,684</u>	<u>26,631</u>
Cash flows from investing activities		
Payments for business acquisition	-	(186,512)
Capital expenditures	(5,027)	(2,839)
Net cash used in investing activities	<u>(5,027)</u>	<u>(189,351)</u>
Cash flows from financing activities		
Change in bank overdrafts	(908)	(6,713)
Repayment of capital lease obligations	(55)	(38)
Equity contribution	26	40,000
Debt acquisition costs	-	(2,474)
Proceeds from bank term loan	-	143,000
Repayments of notes payable	(210)	(184)
Repayments of long term obligations	(45,146)	-
Net cash (used in) provided by financing activities	<u>(46,293)</u>	<u>173,591</u>
Effect of exchange rate changes on cash	-	-
Net change in cash and cash equivalents	4,364	10,871
Cash and cash equivalents - beginning of period	12,337	519
Cash and cash equivalents - end of period	<u>\$ 16,701</u>	<u>\$ 11,390</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 9,135	\$ 10,322
Interest received	486	139
Income taxes (paid) / refunded	(103)	60
Non-cash investing activity:		
Capital lease activity	(1,129)	(12)

*See accompanying Notes to Unaudited Consolidated Financial Statements*

**PINNACLE FOODS GROUP INC. 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 Shareholders' Equity
	Shares	Amount					
Balance at December 25, 2005	100	\$ -	\$ 529,425	\$ (151,795)	\$ (17,338)	\$ (3,768)	\$ 356,524
Equity contribution:							
Cash			40,000				40,000
Equity related compensation			1,715				1,715
Comprehensive income:							
Net loss				(6,420)			(6,420)
Foreign currency translation						1	1
Total comprehensive loss							(6,419)
Balance at March 26, 2006	100	\$ -	\$ 571,140	\$ (158,215)	\$ (17,338)	\$ (3,767)	\$ 391,820
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			405				405
Comprehensive income:							
Net earnings				9,629			9,629
Foreign currency translation						(4)	(4)
Total comprehensive earnings							9,625
Balance at April 1, 2007	100	\$ -	\$ 573,834	\$ (108,502)	\$ (17,338)	\$ 157	\$ 448,151

See accompanying Notes to Unaudited Consolidated Financial Statements

**PINNACLE FOODS GROUP INC. 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 Group Inc. (hereafter referred to as the “Company” or “PFGI”) 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 other frozen foods under the Celeste® name, as well as food service and private label products.

Effective November 24, 2003, Pinnacle Foods Holding Corporation (“PFHC”) and certain newly-formed investor companies consummated a merger (the “Pinnacle Transaction”), whereby PFHC was effectively acquired by Crunch Equity Holding, LLC (“LLC”). On November 25, 2003, LLC entered into a definitive agreement with Aurora Foods Inc. (“Aurora”) that provided for a comprehensive restructuring transaction in which PFHC was merged with and into Aurora (the “Aurora Merger”), with Aurora surviving this merger. The combination of Aurora and PFHC was treated as a purchase, with LLC as the accounting acquirer, in accordance with Statement of Financial Accounting Standards No. 141, “Business Combinations.” This restructuring transaction was completed on March 19, 2004 and the surviving company was renamed PFGI.

Crunch Holding Corp. (“CHC”) is a holding company whose sole asset is its investment in 100% of the common stock of PFGI. CHC is a wholly-owned subsidiary of LLC.

**Subsequent Events – Acquisition by The Blackstone Group**

On February 10, 2007, Crunch Holdings Corp., 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, an indirect wholly owned subsidiary of Peak Acquisition providing for the acquisition of Crunch Holding Corp. Under the terms of the Agreement and Plan of Merger, the purchase price for CHC was \$2,162.5 million in cash plus an amount equal to the aggregate exercise prices of vested options 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 amount of our working capital and indebtedness as of the closing. This transaction closed on April 2, 2007.

These financial statements and accompanying notes present the Company as of April 1, 2007 (our normal quarter end), just prior to the closing of the transaction, and the results of operations for the three months then ended. Therefore, the effects of the transaction are not reflected in the accompanying financial statements. These effects, which would be material, include the following:

- The financing of the transaction, including \$418 million in equity contributions from The Blackstone Group and other individual investors, \$1,250 million borrowed under a new term loan B facility, \$125 million revolving credit facility (of which \$10 million was drawn at closing), issuance of \$325 million senior notes and the issuance of \$250 million senior subordinate notes.
- The repayment of the outstanding balance under the existing senior secured credit facility (\$476.0 million) discussed in Note 9.
- The tender of the \$394.0 million 8 ¼% senior subordinated notes discussed in Note 9.
- The acceleration of the vesting of stock options discussed in Note 5.
- The write off of debt acquisition costs in the amount of \$24.1 million and the premium on senior subordinated notes in the amount of \$5.2 million discussed in Notes 8 and 9, respectively.
- The payment of certain change in control provisions contained in the employment agreement of our Chairman, C. Dean Metropoulos, (\$6.6 million) as well as payment of contract termination fees to affiliates of Mr. Metropoulos (\$6.3 million).

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

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**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 PFGI's financial position as of April 1, 2007, and the results of operations and cash flows for the three months ended April 1, 2007 and March 26, 2006. 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 thereto for the year ended December 31, 2006.

**3. Acquisition**

Acquisition of 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 is expected to complement the Company's existing product lines that together will 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.

Concurrently with the acquisition but effective as of February 14, 2006, the Company entered into an Amendment No. 4 and Agreement to the existing senior secured credit facilities (described in Note 9). Among other things, the amendment approved the acquisition of the Armour Business and provided for the making of \$143 million of additional tack-on term loans to fund a portion of the acquisition. The amendment also changed the senior secured credit facilities in other respects, including: (a) the leverage ratio calculations were adjusted such that the amount of indebtedness used in such calculations is no longer subject to averaging and is reduced by certain cash and cash equivalents, (b) the leverage ratio threshold for the quarter ending on or about March 31, 2006 was changed from 5.00 to 1.00 to 5.25 to 1.00, and (c) under certain circumstances, Pinnacle may be able to use equity contributions to cure financial covenant defaults, if any, that may occur in the future under the senior secured credit facilities.

The Company funded the remaining portion of the purchase price through equity contributions from the shareholders of LLC.

The cost of the Armour Business consists of:

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

**PINNACLE FOODS GROUP INC. 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 final. Portions of the purchase price, including intangible assets, have been identified and valued by independent appraisers utilizing proven valuation procedures and techniques. The other current asset is the value the Company has 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 purchase method 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 fiscal 2006 includes a pre-tax charge of \$4,760 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 first quarter of fiscal 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 borrowing discussed above, purchase accounting adjustments resulting in changes to depreciation expense and related adjustments to the provision for income tax.

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.

	Three Months Ended <u>March 26, 2006</u>
Net sales	\$ 343,679
Earnings before interest and taxes	\$ 23,090
Net earnings (loss)	\$ (5,580)

Pro forma depreciation and amortization expense included above was \$9,997.

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

Included in earnings (loss) before interest and taxes in the pro forma information above for the first quarter of fiscal 2006 are the following material charges:

	Three Months Ended <u>March 26, 2006</u>
Flow through of fair value of the Armour Business inventories over manufactured cost as of March 1, 2006	\$ 2,028
Stock based compensation expense	<u>1,415</u>
Impact on earnings (loss) before interest and taxes	<u><u>\$ 3,443</u></u>

**4. Restructuring and Impairment Charges**

**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. The following table contains detailed information about the charges incurred to date related to the Omaha restructuring plan, 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":

Description	Original Estimated Charges	Change in Estimated Charges	Transfers	Incurred		Estimated Remaining Charges Per Quarter
				Through December 31, 2006	Fiscal 2007	
Asset impairment charges	\$ 7,400	\$ 5,149		\$ 12,549	\$ -	\$ -
Employee severance	2,506	-	59	2,565	-	-
Other costs	4,984	(344)	(59)	4,475	46	60
Total	<u>\$ 14,890</u>	<u>\$ 4,805</u>	<u>\$ -</u>	<u>\$ 19,589</u>	<u>\$ 46</u>	<u>\$ 60</u>

The charges incurred have been included in Other expense (income), net in the Consolidated Statement of Operations. All such charges are reported under the frozen foods business segment.

The Company had planned to transfer equipment with a net book value of approximately \$9,700 to other production locations, primarily in Fayetteville, Arkansas and Jackson, Tennessee. Due to the delay in closing the Omaha plant and the need to have production up and running in the Fayetteville plant, the Company was unable to transfer certain equipment with a net book value of \$6,196 and instead incurred capital expenditures to purchase, build and modify the necessary equipment in Fayetteville. In addition to the impairment charge initially recorded in the first quarter of 2004, the Company evaluated the remaining property, plant and equipment as well as existing offers to sell the plant and equipment, and recorded an impairment charge of \$2,649 in December 2004. During the third quarter of 2006 and based upon current offers, the Company lowered the carrying value of the plant and equipment and recorded an additional impairment charge totaling \$2,500.

**PINNACLE FOODS GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
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Employees terminated as a result of this closure were eligible to receive severance pay and benefits totaling \$2,565, all of which has been disbursed. Other closing costs of approximately \$4,581 relate to other shutdown costs. As of April 1, 2007, \$4,297 has been disbursed and \$224 has been incurred and accrued.

The Company entered into an agreement of purchase and sale as of January 1, 2007 to sell the Omaha facility for \$2.5 million. On February 27, 2007, however, the City of Omaha decided to exercise its right of first refusal to purchase this facility for the same purchase price. The Company anticipates the sale of this facility will be consummated during the second quarter of 2007. The Company will continue to incur certain costs until the plant is sold, which we expect to approximate \$60 per quarter and will be recorded as a component of other expense (income), net as incurred in the Company's Statements of Operations.

*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 Mrs. Paul's and Van de Kamp'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. During fiscal 2005 and 2006, the Company incurred charges related to the shutdown of the Erie, Pennsylvania production facility. The 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.

The following table summarizes impairment and restructuring charges during the three months ended April 1, 2007. It also includes severance liabilities assumed or established in purchase accounting. These amounts are recorded in accrued liabilities.

Description	Balance at December 31, 2006	Additions Charged to Expense	Noncash Reductions	Cash Reductions	Balance at April 1, 2007
Employee severance	\$ 612	-	-	(113)	\$ 499
Other costs	225	46	-	(46)	225
Total	\$ 837	\$ 46	\$ -	\$ (159)	\$ 724

**5. Stock-Based Compensation Expense**

The following table summarizes the stock option transactions under the 2004 Stock Option Plan for the three months ended April 1, 2007:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value (000's)
Outstanding - December 31, 2006	27,328,663	\$ 1.00		
Granted	589,445	\$ 1.53		
Exercised	(26,054)	1.00		
Forfeitures	(367,280)	1.01		
Outstanding - April 1, 2007	27,524,774	\$ 1.01	7.7066	\$ -
Exercisable - April 1, 2007	11,412,812	\$ 1.00	7.0662	\$ -

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

As discussed in Note 1, upon the closing of the acquisition of Crunch Holding Corp., all unvested options were accelerated. As of April 1, 2007, there was \$4.2 million of total unrecognized compensation cost related to nonvested options that was expensed at closing. Additionally, the Company will also incur an expense related to options that were vested at the time of adoption of FASB 123(R), “Share-Based Payment”, which is currently being finalized.

The following table summarizes stock-based compensation expense related to employee stock options and employee stock purchases under SFAS 123(R) for the three months ended April 1, 2007 and March 26, 2006 which was allocated as follows:

	Three Months Ended	
	April 1, 2007	March 26, 2006
Cost of products sold	\$ 58	\$ 41
Marketing and selling expenses	140	114
Administrative expenses	191	1,546
Research and development expenses	16	14
Pre-Tax Stock-Based Compensation Expense	405	1,715
Income Tax Benefit	(2)	(2)
Net Stock-Based Compensation Expense	<u>\$ 403</u>	<u>\$ 1,713</u>

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

	Three Months Ended	
	April 1, 2007	March 26, 2006
Other expense (income) consists of:		
Restructuring and impairment charges	\$ 46	\$ 451
Amortization of intangibles/other assets	1,911	1,203
Royalty expense (income), net and other	(44)	56
Total other expense	<u>\$ 1,913</u>	<u>\$ 1,710</u>

**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.

**7. Inventories**

	April 1, 2007	December 31, 2006
Raw materials, containers and supplies	\$ 37,116	\$ 34,829
Finished product	123,148	146,206
	160,264	181,035
Reserves	(2,009)	(2,735)
Total	<u>\$ 158,255</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.

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**8. Goodwill and Other Assets**

Goodwill

	December 31, 2006	Adoption of FIN 48	April 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>

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", resulted in a \$1,070 increase to goodwill acquired in the Pinnacle Transaction.

Other Assets

	April 1, 2007	December 31, 2006
Amortizable intangibles, net of accumulated amortization of \$17,594 and \$15,683, respectively	\$ 28,437	\$ 30,348
Deferred financing costs, net of accumulated amortization of \$20,382 and \$18,405, respectively	24,072	26,049
Total	<u>\$ 52,509</u>	<u>\$ 56,397</u>

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 a five year and seven year estimated useful life, respectively, for amortization purposes. Additionally, during the 21 weeks ended December 26, 2004, the Company reacquired an exclusive license to distribute Duncan Hines product in Canada. The license that was reacquired ran through June 30, 2006 at which time the Company had exclusive right to distribution of the Duncan Hines product in Canada. Amortization expense during the three months ended April 1, 2007 was \$1,911. Amortization expense during the three months ended March 26, 2006 was \$1,203. Estimated amortization expense for each of the next five years is as follows: remainder of 2007 - \$5,732, 2008 - \$7,642, 2009 - \$4,727, 2010 - \$3,880, 2011 - \$3,049, thereafter - \$3,407.

Deferred financing costs relate to the senior secured credit facilities and senior subordinated notes. Amortization expense during the three months ended April 1, 2007 was \$1,977. Amortization expense during the three months ended March 26, 2006 was \$1,290.

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**9. Debt and Interest Expense**

	April 1, 2007	December 31, 2006
<u>Long-term debt</u>		
- Senior secured credit facility - term loan	\$ 476,042	\$ 521,187
- 8 1/4% Senior subordinated notes	394,000	394,000
- Plus: unamortized premium on senior subordinated notes	5,211	5,360
- Capital lease obligations	1,278	206
Total debt	<u>876,531</u>	<u>920,753</u>
Less: current portion of long-term obligations	277	123
Total long-term debt	<u>\$ 876,254</u>	<u>\$ 920,630</u>

	<u>Three months ended</u>	
	<u>April 1, 2007</u>	<u>March 26, 2006</u>
Third party interest expense	\$ 19,792	\$ 19,968
Related party interest expense	9	43
Interest rate swap (gains) losses (Note 11)	416	(489)
	<u>\$ 20,217</u>	<u>\$ 19,522</u>

In November 2003, the Company entered into a \$675.0 million Credit Agreement (“senior secured credit facilities”) with JPMorgan Chase Bank (a related party of JPMorgan Partners, LLC as defined in Note 14) 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 existing 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 term loan matures November 25, 2010. The senior secured credit facilities also provide 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. The revolving credit facility expires November 25, 2009. There were no borrowings outstanding under the revolver as of December 31, 2006 and April 1, 2007.

As of December 31, 2006, \$2,748 of our term loan was owed to affiliates of JPMorgan Chase Bank. There was no related party debt as of April 1, 2007.

Our borrowings under the senior secured credit facilities 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 facilities. 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 in our senior secured credit facilities. The applicable margin with respect to the term loan facility and the revolving credit facility, which was adjusted in connection with the June 2, 2006 amendment discussed below, is currently:

- In the case of base rate loans: 1.00% for the term loan and 2.25% for the revolving credit facility.
- In the case of Eurodollar loans: 2.00% for the term loan and 3.25% for the revolving credit facility.

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The range of margins for the revolving credit facility is:

- In the case of base rate loans: 1.75% to 2.25%.
- In the case of Eurodollar loans: 2.75% to 3.25%.

A commitment fee of 0.50% per annum applies to the unused portion of the revolving loan facility. For the three months ended April 1, 2007, the weighted average interest rate on the term loan was 7.36%. There were no borrowings under the revolving credit facility during the first quarter. As of April 1, 2007, the Eurodollar interest rate on the term loan facility was 7.74% and the commitment fee on the undrawn revolving credit facility was 0.50%. For the three months ended March 26, 2006, the weighted average interest rate on the term loan was 7.74% and on the revolving credit facility was 9.62%. As of March 26, 2006, the Eurodollar interest rate on the term loan facility was 7.88% and the commitment fee on the undrawn revolving credit facility was 0.50%.

During the three months ended April 1, 2007, we prepaid \$45.15 million of the term loan facility. Due to the prepayments, the next scheduled installment payable will be in March 2010. As a result of the acquisition of Crunch Holding Corp. discussed in Note 1, the senior secured credit facilities were paid in full at the time the acquisition closed on April 2, 2007.

The obligations under the senior secured credit facilities are unconditionally and irrevocably guaranteed by each of our direct or indirect domestic subsidiaries (collectively, the "Guarantors"). In addition, the senior secured credit facilities are 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).

We pay 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 cannot exceed \$40,000. As of December 31, 2006 and April 1, 2007, we had utilized \$9,222 and \$7,836, respectively, of the revolving credit facility for letters of credit. Of the \$130,000 revolving credit facility available, as of December 31, 2006 and April 1, 2007, we had an unused balance of \$120,778 and \$122,164, respectively, available for future borrowings and letters of credit, of which a maximum of \$30,778 and \$32,164, respectively, may be used for letters of credit.

In November 2003 and February 2004, the Company issued \$200.0 million and \$194.0 million, respectively, 8¼% senior subordinated notes. The February 2004 notes resulted in gross proceeds of \$201.0 million, including premium. The terms of the February 2004 notes are the same as the November 2003 notes and are issued under the same indenture. The 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.

We may redeem all or a portion of the notes prior to December 1, 2008, at a price equal to 100% of the principal amount of the notes plus a "make-whole" premium (the greater of: (1) 1% of the then outstanding principal amount of the note; and (2) the excess of: (a) the present value at such redemption date of (i) the redemption price of the note at December 1, 2008 plus (ii) all required interest payments due on the note through December 1, 2008, computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over (b) the then outstanding principal amount of the note, if greater). On or after December 1, 2008, we may redeem some or all of the notes at the redemption prices listed below, if redeemed during the twelve-month period beginning on December 1 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2008	104.125%
2009	102.750%
2010	101.375%
2011 and thereafter	100.000%

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Upon the change of control that occurred subsequent to the quarter end (as defined in the indenture pursuant to which the notes were issued), and since we had not exercised our right to redeem all of the notes as described above, the note holders had the right to require the Company to repurchase all or a portion of the notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase. The notes were redeemed, in accordance with the aforementioned terms, upon the closing of the acquisition of Crunch Holding Corp.

The notes include a provision that the Company will file with the SEC on or prior to August 21, 2004 a registration statement relating to an offer to exchange the notes for an issue of SEC-registered notes with terms identical to the notes and use its reasonable best effort to cause such registration statement to become effective on or prior to October 20, 2004. Since the exchange offer was not completed before November 19, 2004, the annual interest rate borne by the notes increased by 1.0% per annum until the exchange offer was completed, which occurred on February 1, 2005. As of that date, the Company was no longer paying the additional interest.

Our senior secured credit facilities and the notes contain a number of covenants that, among other things, limit, subject to certain exceptions, our ability to incur additional liens and indebtedness, make capital expenditures, engage in certain transactions with affiliates, repay other indebtedness (including the notes), make certain distributions, make acquisitions and investments, loans or advances, engage in mergers or consolidations, liquidations and dissolutions and joint ventures, sell assets, make dividends, amend certain material agreements governing our indebtedness, enter into guarantees and other contingent obligations and other matters customarily restricted in similar agreements. In addition to scheduled periodic repayments, we are also required to make mandatory repayments of the loans under the senior secured credit facilities with a portion of our excess cash flow, as defined. Due to voluntary prepayments of the term loan made by the Company in fiscal 2006, the Company was not required to make any mandatory repayments for 2006. In addition, our senior secured credit facilities contain, among others, the following financial covenants: a maximum total leverage ratio, a minimum interest coverage ratio and a maximum capital expenditure limitation. See the discussion below regarding the amendments to the senior credit agreement where these covenants have been adjusted.

Amendments to Senior Secured Credit Facilities

On September 14, 2004, the Company was first in default under its senior secured credit facilities. On November 19, 2004 the Company received required lender approval to permanently waive the defaults mentioned above and amend the financial covenants for future reporting periods. The terms of the permanent amendment and waiver included among other items, a 50 basis point increase to the applicable margin (described above), the addition of a new senior covenant leverage ratio through December 2005, amendment of the interest expense coverage ratio through December 2005, suspension of the maximum total leverage ratio until March 2006, and certain limitations, restrictions and additional reporting requirements 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, which occurred on May 10, 2006.

In connection with Amendment No. 4 dated February 14, 2006, the senior secured credit facilities were also changed in other respects, including: (a) the leverage ratio calculations were adjusted such that the amount of indebtedness used in such calculations is no longer subject to averaging and is reduced by certain cash and cash equivalents, (b) the leverage ratio threshold for the quarter ending on or about March 31, 2006 was changed from 5.00 to 1.00 to 5.25 to 1.00, and (c) under certain circumstances, Pinnacle may be able to use equity contributions to cure financial covenant defaults, if any, that may occur in the future under the senior secured credit facilities.

On June 2, 2006, the Company entered into Amendment No. 5, which amended the senior credit facilities in the following manner: (a) to reduce the applicable margin with respect to any term loan to (i) 1.00% per annum, in the case of a base rate loan or (ii) 2.00% per annum, in the case of a Eurodollar loan, (b) to require the payment of certain fees in connection with repricings of the term loans on or prior to June 2, 2007 and (c) to permit additional indebtedness in an aggregate principal amount of up to \$15 million arising from letters of credit issued other than pursuant to the Credit Agreement.

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**10. Pension and Retirement Plans**

As of April 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. Effective March 19, 2004 and in connection with the acquisition of Aurora Foods, liabilities were assumed related to eight retired employees ("Aurora Retirees"). 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 retired employees, excluding the Aurora Retirees, are now required to pay 100% of the monthly premium cost, as calculated by our insurance administrator.

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		Other Postretirement Benefits	
	Three months ended		Three months ended	
	April 1, 2007	March 26, 2006	April 1, 2007	March 26, 2006
Service cost	\$ 472	\$ 464	\$ 246	\$ 44
Interest cost	980	889	132	40
Expected return on assets	(1,092)	(1,028)	-	-
Amortization of:		-		
Loss	-	40	-	2
Unrecognized prior service cost (credit)	-	-	(84)	(84)
Net periodic benefit cost	\$ 360	\$ 365	\$ 294	\$ 2

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, measurers of the net periodic post retirement benefit costs do not reflect any amount associated with the subsidy. Therefore, this legislation has not had a material impact on the Company's consolidated financial statements.

**11. Financial Instruments**

We 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 the utilization of written guidelines.

We rely 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.

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The Company has entered into interest rate swap agreements with counterparties, including JP Morgan Chase Bank (a related party), to effectively change a portion of the floating rate payments on its senior secured credit facilities into fixed rate payments. As of April 1, 2007, one swap agreement remains outstanding. The agreement terminates on November 25, 2009 and has a notional amount of \$450.0 million. Interest payments determined under the swap agreement are based on the notional amounts. Floating interest rate payments to be received under each swap are based on U.S. Dollar LIBOR, which is substantially the same basis for determining the floating rate payments on the senior secured credit facilities.

These swaps were not designated as hedges pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." As of April 1, 2007, the fair value of the interest rate swaps was a net loss of \$2,299, which was recorded as a long term liability. As of December 31, 2006, the fair value of the interest rate swap contracts in place at the time was 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. Gains and losses on the interest rate swaps, which were recorded as an adjustment to interest expense in the Consolidated Statement of Operations, are detailed below.

<u>Interest rate swaps</u>	<u>Three months ended</u>	
	<u>April 1, 2007</u>	<u>March 26, 2006</u>
Non-cash gain (loss)	\$ (1,452)	\$ 489
Gain (loss) realized in cash	1,036	-
Net gain (loss) on interest rate swaps	<u>\$ (416)</u>	<u>\$ 489</u>

We entered into various natural gas swap transactions with JP Morgan Chase Bank (a related party) to lower the Company's exposure to the price of natural gas. As of April 1, 2007, the trades in effect mature from April through June 2007 and have various notional quantities of MMBTU's per month. The Company will pay a fixed price ranging from \$7.16 to \$7.33 per MMBTU, with settlements monthly. These swaps were not designed as hedges pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

As of December 31, 2006 and April 1, 2007, the fair value of the natural gas swaps was a loss of \$160 and a gain of \$45, respectively. At December 31, 2006, the fair value of the gas swap is recorded in accrued liabilities. At April 1, 2007, the fair value of the gas swaps was recorded in other current assets. The related offset is recorded as a gain and was recognized as a reduction to cost of products sold. 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>	<u>Three months ended</u>	
	<u>April 1, 2007</u>	<u>March 26, 2006</u>
Non-cash gain (loss)	\$ 205	\$ (420)
Gain (loss) realized in cash	(84)	(369)
Net gain (loss) on natural gas swaps	<u>\$ 121</u>	<u>\$ (789)</u>

We utilize irrevocable standby letters of credit with one-year renewable terms to satisfy workers' compensation self-insurance security deposit requirements. The contract value of the outstanding standby letters of credit as of December 31, 2006 and April 1, 2007 was \$7,846 and \$7,423, respectively, which approximates fair value. As of December 31, 2006 and April 1, 2007, we also utilized letters of credit in connection with the purchase of raw materials in the amount of \$1,376 and \$413, respectively, which approximates fair value.

We are 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 by Moody's and Standard & Poor'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 and the 8 1/4% senior subordinated notes that are classified as long term debt on the Consolidated Balance Sheet at April 1, 2007, was approximately its carrying value.

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**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.

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.

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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.

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 December 31, 2006.

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 April 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.

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**13. Related Party Transactions**

**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 our senior credit agreement and the resulting amendment (see Note 9), 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 delivers to the Administrative Agent financial statements for the fiscal quarter ending March 2006. For the three months ended April 1, 2007, management fees expensed and paid to JPMP and JWC were \$250. There were no management fees expensed or paid during the three months ended March 26, 2006. The Company reimbursed JPMP and JWC for out-of-pocket expenses totaling \$7 and \$17 during the three months ended April 1, 2007 and March 26, 2006, respectively. 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.

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.

Certain ownership units of 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 three months ended March 26, 2006.

**Leases and Aircraft**

The Company leases 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. Rent expense was \$25 during the three months ended March 26, 2006.

Beginning November 25, 2003, the Company began using an aircraft owned by a company indirectly owned by the Chairman. In connection with the usage of the aircraft, the Company incurred net operating expenses of \$688 during the three months ended April 1, 2007. The Company incurred net operating expenses for the usage of aircraft of \$688 during the three months ended March 26, 2006. The Company also incurred direct costs totaling \$78 and \$59 during the three months ended April 1, 2007 and March 26, 2006, respectively, that are reimbursable to PFGI by the company that owns the aircraft.

As discussed in Note 1, upon the closing of the acquisition of Crunch Holding Corp., the agreements for the lease of office space and the use of the aircraft were terminated and contract termination payments were made totaling \$6.3 million.

**Debt and Interest Expense**

For the three months ended April 1, 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 three months ended March 26, 2006, fees and interest expense recognized in the Consolidated Statement of Operations for the debt to the related party, JPMorgan Chase Bank, amounted to \$43. See Note 9.

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

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**Financial Instruments**

The Company has 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 three months ended April 1, 2007, the net cash paid by the Company for the settlement of financial instruments totaled \$84. During the three months ended March 26, 2006, the net cash paid by the Company for the settlement of financial instruments totaled \$369. 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 defined below), which owns approximately 43% of LLC. 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 three months ended March 26, 2006 \$100 in fees on behalf of the Bondholder Trust.

**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 months ended March 26, 2006 includes \$2,028, representing the write-up of inventories to fair value at the date of the acquisition of the Armour Business. 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. All inventory items were sold subsequent to the acquisition dates. Corporate assets consist of deferred tax assets. Unallocated corporate expenses consist of corporate overhead such as executive management, finance and legal functions, and stock-based compensation expense related to the ownership units of LLC issued to CDM Investors Group LLC.

**PINNACLE FOODS GROUP INC. AND SUBSIDIARIES**  
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<u>SEGMENT INFORMATION</u>	Three months ended	
	April 1, 2007	March 26, 2006
Net sales		
Dry foods	\$ 193,606	\$ 136,534
Frozen foods	182,981	177,351
Total	<u>\$ 376,587</u>	<u>\$ 313,885</u>
Earnings before interest and taxes		
Dry foods	\$ 37,365	\$ 18,287
Frozen foods	4,020	6,586
Unallocated corporate expenses	(5,655)	(5,212)
Total	<u>\$ 35,730</u>	<u>\$ 19,661</u>
Depreciation and amortization		
Dry foods	\$ 5,683	\$ 3,693
Frozen foods	4,480	5,593
Total	<u>\$ 10,163</u>	<u>\$ 9,286</u>
Capital expenditures		
Dry foods	\$ 3,611	\$ 1,247
Frozen foods	2,545	1,604
Total	<u>\$ 6,156</u>	<u>\$ 2,851</u>

GEOGRAPHIC INFORMATION

Net sales		
United States	\$ 359,572	\$ 300,525
Canada	17,015	13,360
Total	<u>\$ 376,587</u>	<u>\$ 313,885</u>

<u>SEGMENT INFORMATION:</u>	April 1, 2007	December 31, 2006
Total Assets		
Dry foods	\$ 1,246,754	\$ 1,259,295
Frozen foods	540,741	530,948
Corporate	2,551	1,838
Total	<u>\$ 1,790,046</u>	<u>\$ 1,792,081</u>

GEOGRAPHIC INFORMATION

Long-lived assets		
United States	\$ 251,258	\$ 253,357
Canada	34	30
Total	<u>\$ 251,292</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." 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.

**PINNACLE FOODS GROUP INC. AND SUBSIDIARIES**  
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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 Statement 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. Had the Company adopted this provision in fiscal 2006, total liabilities are estimated to have increased by \$2.0 million and total stockholder’s equity would have decreased by \$2.0 million.

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.

## **16. Income Taxes**

We adopted the provisions of FASB Interpretation No. 48 (“FIN 48”), “*Accounting for Uncertainty in Income Taxes*”, 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 effective tax rate was \$261. The Company's liability for unrecognized tax benefits as of April 1, 2007 was unchanged; however, the overall liability has increased by \$60 due to the additional interest accrued in first quarter. The amount, if recognized, that would impact the effective tax rate as of April 1, 2007 was \$321. The entire amount of the liability for unrecognized tax benefits as of January 1, 2007 and April 1, 2007 was 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 \$470 as of January 1, 2007 and April 1, 2007 respectively. No penalties were accrued.

The Company also recorded a reduction of \$102 million to its non current federal and state deferred tax assets resulting from the excess of its 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.

**PINNACLE FOODS GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
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**17. Guarantor and Nonguarantor Statements**

In connection with the Pinnacle Transaction and Aurora Merger described in Note 1 and as a part of the related financings, the Company issued \$394 million of 8¼% senior subordinated notes (\$200 million in November 2003 and \$194 million in February 2004, collectively referred to as the “Notes”) in private placements pursuant to Rule 144A and Regulation S. The 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.

The following consolidating financial information presents:

- (1) (a) Consolidating balance sheets as of April 1, 2007 and December 31, 2006 and (b) the related consolidating statements of operations and cash flows for the Company, all guarantor subsidiaries and the non-guarantor subsidiary for the three months ended April 1, 2007 and March 26, 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 GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
(in thousands, except share amounts and where noted in millions)

**Pinnacle Foods Group Inc.**  
**Consolidated Balance Sheet**  
**April 1, 2007**

	Pinnacle Foods Group, Inc.	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
<b>Current assets:</b>					
Cash and cash equivalents	\$ 2,828	\$ 13,061	\$ 812	\$ -	\$ 16,701
Accounts receivable, net	62,642	36,479	4,800	-	103,921
Intercompany accounts receivable	-	41,307	-	(41,307)	-
Inventories, net	87,683	66,105	4,467	-	158,255
Other current assets	1,984	1,496	524	-	4,004
Deferred tax assets	-	2,551	-	-	2,551
<b>Total current assets</b>	<b>155,137</b>	<b>160,999</b>	<b>10,603</b>	<b>(41,307)</b>	<b>285,432</b>
Plant assets, net	139,635	111,622	35	-	251,292
Investment in subsidiaries	372,711	2,540	-	(375,251)	-
Intercompany note receivable	24,986	-	-	(24,986)	-
Tradenames	691,426	106,156	-	-	797,582
Other assets, net	52,416	93	-	-	52,509
Goodwill	261,748	141,483	-	-	403,231
<b>Total assets</b>	<b>\$ 1,698,059</b>	<b>\$ 522,893</b>	<b>\$ 10,638</b>	<b>\$ (441,544)</b>	<b>\$ 1,790,046</b>
<b>Current liabilities:</b>					
Current portion of long-term obligations	\$ -	\$ 277	\$ -	\$ -	\$ 277
Notes payable	-	-	-	-	-
Accounts payable	20,622	46,878	3,427	-	70,927
Intercompany accounts payable	40,024	-	1,283	(41,307)	-
Accrued trade marketing expense	23,732	13,036	3,137	-	39,905
Accrued liabilities	59,293	25,848	251	-	85,392
Accrued income taxes	7	62	-	-	69
<b>Total current liabilities</b>	<b>143,678</b>	<b>86,101</b>	<b>8,098</b>	<b>(41,307)</b>	<b>196,570</b>
Long-term debt	875,261	993	-	-	876,254
Intercompany note payable	-	24,986	-	(24,986)	-
Pension and other postretirement benefits	10,296	6,466	-	-	16,762
Other long-term liabilities	4,843	2,747	-	-	7,590
Deferred tax liabilities	215,830	28,889	-	-	244,719
<b>Total liabilities</b>	<b>1,249,908</b>	<b>150,182</b>	<b>8,098</b>	<b>(66,293)</b>	<b>1,341,895</b>
Commitments and contingencies	-	-	-	-	-
<b>Shareholder's equity:</b>					
Pinnacle Common Stock, \$.01 par value					
Additional paid-in-capital	573,834	347,448	935	(348,383)	573,834
Accumulated other comprehensive income (loss)	157	157	195	(352)	157
Carryover of Predecessor basis of net assets	(17,338)	-	-	-	(17,338)
(Accumulated deficit) Retained earnings	(108,502)	25,106	1,410	(26,516)	(108,502)
<b>Total shareholder's equity</b>	<b>448,151</b>	<b>372,711</b>	<b>2,540</b>	<b>(375,251)</b>	<b>448,151</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 1,698,059</b>	<b>\$ 522,893</b>	<b>\$ 10,638</b>	<b>\$ (441,544)</b>	<b>\$ 1,790,046</b>

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

**Pinnacle Foods Group Inc.**  
**Consolidated 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	150,361	147,082	10,154	(25,043)	282,554
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	\$ 1,696,040	\$ 508,355	\$ 10,184	\$ (422,498)	\$ 1,792,081
<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	115,113	79,599	7,650	(25,044)	177,318
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	1,257,685	138,420	7,650	(50,029)	1,353,726
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 (loss)	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	438,355	369,935	2,534	(372,469)	438,355
Total liabilities and shareholder's equity	\$ 1,696,040	\$ 508,355	\$ 10,184	\$ (422,498)	\$ 1,792,081

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

**Pinnacle Foods Group Inc.**  
**Consolidated Statement of Operations**  
**For the three months ended April 1, 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	170,266	116,165	14,062	(8,474)	292,019
Marketing and selling expenses	19,744	9,929	2,371	-	32,044
Administrative expenses	8,732	4,697	350	-	13,779
Research and development expenses	723	379	-	-	1,102
Intercompany royalties	-	-	57	(57)	-
Intercompany technical service fees	-	-	175	(175)	-
Other expense (income), net	1,916	(3)	-	-	1,913
Equity in (earnings) loss of investees	(3,040)	(9)	-	3,049	-
Total costs and expenses	198,341	131,158	17,015	(5,657)	340,857
Earnings before interest and taxes	35,103	3,676	-	(3,049)	35,730
Intercompany interest (income) expense	(465)	465	-	-	-
Interest expense	20,205	12	-	-	20,217
Interest income	-	472	14	-	486
Earnings before income taxes	15,363	3,671	14	(3,049)	15,999
Provision for income taxes	5,734	631	5	-	6,370
Net earnings	\$ 9,629	\$ 3,040	\$ 9	\$ (3,049)	\$ 9,629

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

**Pinnacle Foods Group Inc.**  
**Consolidated Statement of Operations**  
**For the three months ended March 26, 2006**

	Pinnacle Foods Group, Inc.	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
Net sales	\$ 183,568	\$ 124,813	\$ 13,360	\$ (7,856)	\$ 313,885
Costs and expenses					
Cost of products sold	138,413	112,034	11,130	(7,684)	253,893
Marketing and selling expenses	15,003	7,592	1,497	-	24,092
Administrative expenses	8,688	4,570	339	-	13,597
Research and development expenses	566	366	-	-	932
Intercompany royalties	-	-	31	(31)	-
Intercompany technical service fees	-	-	141	(141)	-
Other expense (income), net	1,674	36	-	-	1,710
Equity in (earnings) loss of investees	2,912	(145)	-	(2,767)	-
Total costs and expenses	167,256	124,453	13,138	(10,623)	294,224
Earnings before interest and taxes	16,312	360	222	2,767	19,661
Intercompany interest (income) expense	(2,196)	2,196	-	-	-
Interest expense	19,515	7	-	-	19,522
Interest income	-	131	8	-	139
Earnings (loss) before income taxes	(1,007)	(1,712)	230	2,767	278
Provision for income taxes	5,413	1,200	85	-	6,698
Net earnings (loss)	\$ (6,420)	\$ (2,912)	\$ 145	\$ 2,767	\$ (6,420)

**PINNACLE FOODS GROUP INC. 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 three months ended April 1, 2007**

	Pinnacle Foods Group, Inc.	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
<b>Cash flows from operating activities</b>					
Net earnings	\$ 9,629	\$ 3,040	\$ 9	\$ (3,049)	\$ 9,629
Non-cash charges (credits) to net earnings					
Depreciation and amortization	6,401	3,749	13	-	10,163
Amortization of debt acquisition costs	1,977	-	-	-	1,977
Amortization of bond premium	(149)	-	-	-	(149)
Change in value of financial instruments	1,247	-	-	-	1,247
Stock-based compensation charges	405	-	-	-	405
Equity in (earnings) loss of investees	(3,040)	(9)	-	3,049	-
Postretirement healthcare benefits	366	(72)	-	-	294
Other long-term liabilities	2,375	89	-	-	2,464
Pension expense	125	235	-	-	360
Deferred income taxes	5,573	726	-	-	6,299
Changes in working capital, net of acquisition					
Accounts receivable	(9,951)	(8,049)	(339)	-	(18,339)
Intercompany accounts receivable/payable	15,148	(18,111)	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	7,499	(3,202)	(184)	-	4,113
Other current assets	764	(351)	(277)	-	136
Net cash provided by operating activities	<u>50,800</u>	<u>3,147</u>	<u>1,737</u>	<u>-</u>	<u>55,684</u>
<b>Cash flows from investing activities</b>					
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>
<b>Cash flows from financing activities</b>					
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	2,824	727	813	-	4,364
Cash and cash equivalents - beginning of period	3	12,334	-	-	12,337
Cash and cash equivalents - end of period	<u>\$ 2,827</u>	<u>\$ 13,061</u>	<u>\$ 813</u>	<u>\$ -</u>	<u>\$ 16,701</u>
<b>Supplemental disclosures of cash flow information:</b>					
Interest paid	\$ 9,123	\$ 12	\$ -	\$ -	\$ 9,135
Interest received	-	472	14	-	486
Income taxes refunded (paid)	-	119	(222)	-	(103)
<b>Non-cash investing activity:</b>					
Capital leases	-	(1,129)	-	-	(1,129)

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

**Pinnacle Foods Group Inc.**  
**Consolidated Statement of Cash Flows**  
**For the three months ended March 26, 2006**

	Pinnacle Foods Group, Inc.	Guarantor Subsidiaries	Nonguarantor Subsidiary	Eliminations	Consolidated Total
Cash flows from operating activities					
Net (loss) earnings from operations	\$ (6,420)	\$ (2,912)	\$ 145	\$ 2,767	\$ (6,420)
Non-cash charges (credits) to net earnings					
Depreciation and amortization	5,434	3,849	3	-	9,286
Amortization of debt acquisition costs	1,290	-	-	-	1,290
Amortization of bond premium	(138)	-	-	-	(138)
Change in value of financial instruments	(168)	-	-	-	(168)
Stock based compensation charge	1,715	-	-	-	1,715
Equity in loss (earnings) of investees	2,912	(145)	-	(2,767)	-
Postretirement healthcare benefits	71	(69)	-	-	2
Pension expense	55	310	-	-	365
Other long-term liabilities	80	-	-	-	80
Deferred income taxes	5,469	1,008	-	-	6,477
Changes in working capital					
Accounts receivable	(15,691)	(3,020)	123	-	(18,588)
Intercompany accounts receivable/payable	11,052	(14,883)	3,831	-	-
Inventories	(10,799)	25,708	(1,081)	-	13,828
Accrued trade marketing expense	(917)	2,330	(620)	-	793
Accounts payable	5,258	1,981	(2,134)	-	5,105
Accrued liabilities	9,741	1,590	90	-	11,421
Other current assets	(1,900)	3,296	187	-	1,583
Net cash provided by (used in) operating activities	<u>7,044</u>	<u>19,043</u>	<u>544</u>	<u>-</u>	<u>26,631</u>
Cash flows from investing activities					
Payments for business acquisitions	(186,512)	-	-	-	(186,512)
Capital expenditures	(1,098)	(1,737)	(4)	-	(2,839)
Net cash used in investing activities	<u>(187,610)</u>	<u>(1,737)</u>	<u>(4)</u>	<u>-</u>	<u>(189,351)</u>
Cash flows from financing activities					
Change in bank overdrafts	-	(6,550)	(163)	-	(6,713)
Repayment of capital lease obligations	(3)	(35)	-	-	(38)
Equity contribution	40,000	-	-	-	40,000
Debt acquisition costs	(2,474)	-	-	-	(2,474)
Proceeds from bank term loan	143,000	-	-	-	143,000
Repayments of notes payable	-	(184)	-	-	(184)
Net cash (used in) provided by financing activities	<u>180,523</u>	<u>(6,769)</u>	<u>(163)</u>	<u>-</u>	<u>173,591</u>
Effect of exchange rate changes on cash	-	-	-	-	-
Net change in cash and cash equivalents	(43)	10,537	377	-	10,871
Cash and cash equivalents - beginning of period	69	450	-	-	519
Cash and cash equivalents - end of period	<u>\$ 26</u>	<u>\$ 10,987</u>	<u>\$ 377</u>	<u>\$ -</u>	<u>\$ 11,390</u>
Supplemental disclosures of cash flow information:					
Interest paid	\$ 10,322	\$ -	\$ -	\$ -	\$ 10,322
Interest received	-	131	8	-	139
Income taxes refunded (paid)	-	90	(30)	-	60
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 and 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 other frozen products (Celeste).

On February 10, 2007, Crunch Holdings Corp., 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, an indirect wholly owned subsidiary of Peak Acquisition, providing for the acquisition of Crunch Holding Corp. Under the terms of Agreement and Plan of Merger, the purchase price for Crunch Holding Corp. will be \$2,162.5 million in cash plus an amount equal to the aggregate exercise prices of vested options less the amount of indebtedness of Crunch Holding Corp. and its subsidiaries outstanding immediately prior to the closing and certain transaction costs, subject to purchase price adjustments based on the amount of our working capital and indebtedness as of the closing. The closing of the transaction occurred on April 2, 2007, subsequent to the end of the first quarter.

These financial statements and accompanying notes included elsewhere in this quarterly report present the Company as of April 1, 2007 (our normal quarter end), just prior to the closing of the transaction, and the results of operations for the three months then ended. Therefore, the effects of the transaction are not reflected in the accompanying financial statements. These effects, which would be material, include the following:

- The financing of the transaction, including \$418 million in equity contributions from The Blackstone Group and other individual investors, \$1,250 million borrowed under a new term loan B facility, \$125 million revolving credit facility (of which \$10 million was drawn at closing), issuance of \$325 million senior notes and the issuance of \$250 million senior subordinate notes.
- The repayment of the outstanding balance under the existing senior secured credit facility (\$476.0 million) discussed in Note 9 to the consolidated financial statements.
- The tender of the \$394.0 million 8 ¼% senior subordinated notes discussed in Note 9.
- The acceleration of the vesting of stock options discussed in Note 5.
- The write off of debt acquisition costs in the amount of \$24.1 million and the premium on senior subordinated notes in the amount of \$5.2 million discussed in Notes 8 and 9, respectively.
- The payment of certain change in control provisions contained in the employment agreement of our Chairman, C. Dean Metropoulos, (\$6.6 million) as well as payment of contract termination fees to affiliates of Mr. Metropoulos (\$6.3 million).

As described in Note 1 to PFGI's audited consolidated financial statements for fiscal 2006, a merger (the "Pinnacle Transaction") occurred on November 25, 2003. For purposes of identification and description, the Company is referred to as the "Predecessor" for the period prior to the Pinnacle Transaction, and the "Successor" for the period subsequent to the Pinnacle Transaction. Also, as described in Note 3 to PFGI's audited consolidated financial statements for fiscal 2006, on March 19, 2004, in connection with the comprehensive restructuring of Aurora Foods Inc., the Aurora Merger resulted in the merger of Pinnacle and Aurora, with Pinnacle as the accounting acquiror. The consolidated financial statements include the results of operations of the Aurora businesses beginning March 19, 2004.

Also as described in Note 3 to the Consolidated Financial Statements included elsewhere in this quarterly report, 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 is expected to complement the Company's existing product lines that together will provide growth opportunities and scale. The Armour Business is a leading manufacturer, distributor and marketer of products in the \$1.0 billion canned meats category. For the year ended December 31, 2005, the Armour Business had net sales of approximately \$225 million. 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 under private-label and certain co-pack arrangements. The Armour Business offers products in eleven of the fifteen segments within the canned meat category, including Vienna sausage, potted meat, and sliced dried beef. The consolidated financial statements include the results of operations of the Armour Business beginning March 1, 2006.

In November 2003, we entered into a \$675.0 million credit agreement (“senior secured credit facilities”) with JPMorgan Chase Bank (a related party) 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 in connection with the Pinnacle Transaction and \$425.0 million was made available as a delayed draw term loan on the closing date of the Aurora Merger. 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 existing senior secured credit facilities. Among other things, the amendment approved the acquisition and provided for the making of \$143.0 million of additional tack-on term loans to fund a portion of the acquisition. The term loan matures November 25, 2010. The senior secured credit facilities also provide 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. The revolving credit facility expires November 25, 2009. There were no borrowings outstanding under the revolving credit facility as of December 31, 2006 and December 25, 2005.

Additionally, in November 2003 and February 2004, we issued \$200 million and \$194 million, respectively, of 8¼% senior subordinated notes due December 1, 2013. The terms of the November 2003 and February 2004 notes are the same and are issued under the same indenture.

In connection with the acquisition of Crunch Holding Corp. discussed above, the senior secured credit facilities were paid in full at the time the transaction closed and a tender offer was initiated for the 8¼% senior subordinated notes due December 1, 2013.

During the three months ended March 26, 2006, our earnings (loss) before interest and taxes were negatively impacted by certain items. These items included:

- The first quarter of 2006 was impacted by plant consolidation costs related to the closing of the Omaha, Nebraska and Erie, Pennsylvania production facilities totaling \$0.5 million. These costs, which were part of our plan of consolidating and streamlining production activities after the Aurora Merger, are discussed below under the heading “Plant Consolidation.”
- In the first quarter of 2006, we recorded a charge of \$2.0 million related to the flow through of the increase in the fair market value of inventory acquired in the Armour Business.
- In the first quarter of 2006, we recorded non-cash equity compensation of \$1.4 million 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.

As discussed in the Liquidity and Capital Resources section below, our senior secured credit facilities contain the following financial covenants: a maximum total leverage ratio, a minimum interest coverage ratio, and a maximum capital expenditure limitation. We have been in compliance with these covenants since the senior credit agreement permanent amendment and waiver became effective on November 19, 2004 as discussed in the Liquidity and Capital Resources section below. Based upon management’s current estimates, we believe we will continue to meet the financial covenants set forth in the senior credit agreement amendment and, as such, will maintain compliance with these covenant requirements for at least the next 12 months. However, in the event that we do not meet these financial covenants, it could result in a breach, which, if we are unable to obtain a waiver, may result in a default under the senior secured credit facilities, which in turn could trigger default under our 8 ¼% senior subordinated notes. Factors that could influence our ability to meet these financial covenants include (i) lower demand for our products and (ii) higher than anticipated trade and consumer coupon spending.

On June 2, 2006, we amended our senior secured credit facilities, which principally reduced the applicable margin with respect to our term loan by 1.25%. See a further discussion on the senior secured credit facilities amendments in the Liquidity section.

We are currently finalizing the integration of the Armour Business acquired in the first quarter of 2006. Through the Aurora Merger in 2004 and the acquisition of the Armour Business, we have enhanced our existing product offerings and launched dozens of new offerings. Our focused strategy remains the same and includes:

- capitalize on our diversified product portfolio;
- leverage our brand names for share leadership;
- expand the foodservice and private label businesses;
- expand the Vlastic and Duncan Hines brands in Canada;
- continue to achieve significant productivity improvements; and
- complete the integration and execute on our synergy opportunities.

## **Plant Consolidations**

### *Omaha, Nebraska Production Facility*

From the announcement in April 2004 through April 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. We entered into an agreement of purchase and sale as of January 1, 2007 to sell the Omaha facility for \$2.5 million. On February 27, 2007, however, the City of Omaha decided to exercise its right of first refusal to purchase this facility for the same purchase price. We anticipate the sale of this facility will be consummated during the second quarter of 2007.

In order to estimate the costs related to our restructuring efforts, management made its best estimates of the most likely expected outcomes of the significant activities to accomplish the restructuring. These estimates principally related to charges for asset impairment for the owned facility in Omaha, employee severance costs to be paid, and other plant shutdown and relocation costs. The most significant of these estimated costs related to the asset impairment of the Omaha facility, which was based upon the net book value of the assets that were not being transferred, less the cash flows from production until shutdown and a reasonable salvage value for the land, building and equipment to be sold. We initially recorded a charge of \$7.4 million during fiscal 2004 for the impairment of these assets, which was our best estimate of the impairment charge at the time. We had planned to transfer equipment with a net book value of approximately \$9.7 million to other production locations, primarily in Fayetteville, Arkansas and Jackson, Tennessee. Due to the delay in closing the Omaha plant and the need to have production up and running in the Fayetteville plant, we were unable to transfer certain equipment with a net book value of \$6.2 million and instead incurred capital expenditures to purchase, build and modify the necessary equipment in Fayetteville. In addition to the impairment charge initially recorded in fiscal 2004, we evaluated the remaining property, plant and equipment as well as existing offers to sell the plant and equipment, and recorded an additional impairment charge of \$2.6 million in the 21 weeks ended December 26, 2004. During the third quarter of 2006 and based upon current offers, the Company lowered the carrying value of the plant and equipment and recorded an additional impairment charge totaling \$2.5 million.

The severance costs, which include continuation of employee benefits for salaried employees, total \$2.6 million and have all been paid.

The costs associated with transferring certain assets to the Fayetteville and Jackson facilities along with the costs necessary to shut down the Omaha facility are included in other restructuring costs as they are incurred. Since the April 7, 2004 closure announcement, these costs have totaled \$4.5 million. The Company will continue to incur certain costs until the plant is sold. We expect these costs to approximate \$0.1 million per quarter and the costs will be recorded in expense as incurred in the Company's statements of operations. These estimates, together with other estimates made by us in connection with the restructuring actions, may vary significantly from the actual results, depending in part on factors beyond our control. For example, proceeds received from the sale of the land and equipment will depend on our success in negotiating with buyers and the current real estate market in Omaha. We will review the status of our restructuring activities on a quarterly basis and, if appropriate, record changes in estimates to our restructuring obligations in our consolidated financial statements for such quarter based on management's then-current estimates.

### *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 Mrs. Paul's and Van de Kamp'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. During fiscal 2005 and 2006, the Company incurred charges related to the shutdown of the Erie, Pennsylvania production facility. The 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.

As of April 1, 2007, we had an accrued restructuring liability of \$0.7 million, of which \$0.2 million related to the Omaha plant shutdown and the balance related to severance costs from the Aurora Merger and the acquisition of the Armour Foods Business. We expect all of these costs to be paid during the next twelve months.

### **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.

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 accounting principles generally accepted in the United States of America ("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 three months ended April 1, 2007 and March 26, 2006

For the three months ended,

	Consolidated		Dry Foods		Frozen Foods	
	April 1, 2007	March 26, 2006	April 1, 2007	March 26, 2006	April 1, 2007	March 26, 2006
Shipments	\$ 519.4	\$ 435.4	\$ 248.5	\$ 190.3	\$ 270.9	\$ 245.1
Less: Aggregate trade marketing and consumer coupon redemption expenses	131.7	108.9	54.7	50.0	77.0	58.9
Less: Slotting expense	11.1	12.6	0.2	3.8	10.9	8.8
Net sales	<u>\$ 376.6</u>	<u>\$ 313.9</u>	<u>\$ 193.6</u>	<u>\$ 136.5</u>	<u>\$ 183.0</u>	<u>\$ 177.4</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 three months ended March 26, 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			
	April 1, 2007		March 26, 2006	
Net sales	\$ 376.6	100.0%	\$ 313.9	100.0%
Costs and expenses				
Cost of products sold	292.1	77.6%	253.9	80.9%
Marketing and selling expenses	32.0	8.5%	24.1	7.7%
Administrative expenses	13.8	3.7%	13.6	4.3%
Research and development expenses	1.1	0.3%	0.9	0.3%
Other expense (income), net	1.9	0.5%	1.7	0.5%
Total costs and expenses	<u>\$ 340.9</u>	<u>90.5%</u>	<u>\$ 294.2</u>	<u>93.7%</u>
Earnings (loss) before interest and taxes	<u>\$ 35.7</u>	<u>9.5%</u>	<u>\$ 19.7</u>	<u>6.3%</u>

	Three months ended	
	April 1, 2007	March 26, 2006
Net sales		
Dry foods	\$ 193.6	\$ 136.5
Frozen foods	183.0	177.4
Total	<u>\$ 376.6</u>	<u>\$ 313.9</u>
Earnings before interest and taxes		
Dry foods	\$ 37.4	\$ 18.3
Frozen foods	4.0	6.6
Unallocated corporate expenses	(5.7)	(5.2)
Total	<u>\$ 35.7</u>	<u>\$ 19.7</u>
Depreciation and amortization		
Dry foods	\$ 5.7	\$ 3.7
Frozen foods	4.5	5.6
Total	<u>\$ 10.2</u>	<u>\$ 9.3</u>

### Three months ended April 1, 2007 compared to three months ended March 26, 2006

*Net sales.* Shipments in the three months ended April 1, 2007 were \$519.4 million, an increase of \$84.0 million, compared to shipments in the three months ended March 26, 2006 of \$435.4 million. The Armour acquisition resulted in \$43.8 million of increased shipments. All other businesses increased \$40.2 million. Net sales in the three months ended April 1, 2007 were \$376.6 million, an increase of \$62.7 million, compared to net sales in the three months ended March 26, 2006 of \$313.9 million. The Armour acquisition resulted in \$36.9 million of increased net sales. Net sales of all other businesses increased \$25.8 million, which was the result of an increase in shipments of \$40.2 million offset by a \$14.5 million increase in aggregate trade marketing and consumer coupon redemption expenses and slotting expenses.

**Dry foods:** Shipments in the three months ended April 1, 2007 were \$248.5 million, an increase of \$58.2 million. The Armour acquisition resulted in \$43.8 million of increased shipments. The increase in our remaining businesses was due to increases in our Vlastic, Duncan Hines, and syrup product line sales. Aggregate trade marketing and consumer coupon redemption expenses increased \$1.1 million. The Armour acquisition resulted in \$6.8 million of increased aggregate trade marketing and consumer coupon redemption expenses. On the remaining businesses, aggregate trade marketing and consumer coupon redemption expenses decreased \$5.7 million. As a result, dry foods net sales increased \$57.1 million, of which \$36.9 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 \$20.2 million, or 16.4%, for the three months ended April 1, 2007, principally due to higher product shipments.

**Frozen foods:** Shipments in the three months ended April 1, 2007 were \$270.9 million, an increase of \$25.8 million. The change was driven by a \$24.1 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 our Lenders and Celeste product lines sales. Aggregate trade and consumer coupon redemption expenses increased \$20.2 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 \$5.6 million, again principally resulting from the Seafood business.

*Cost of products sold.* Our cost of products sold was \$292.1 million, or 77.6% of net sales in the three months ended April 1, 2007, versus cost of products sold of \$253.9 million, or 80.9% of net sales in the three months ended March 26, 2006, a 3.3 percentage point improvement. The products acquired in the Armour business resulted in an additional \$26.7 million of cost of products sold in the three months ended April 1, 2007. Included in the cost of products sold for the Armour business for the three months ended March 26, 2006 was \$2.0 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 77.4% of net sales, or a 2.8 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 1.7 percentage point improvement. Additionally, there was an increase 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 0.6 percentage points of higher costs in 2007. The balance of the improvement was the result of favorable product costs, mainly due to rate improvements on our base businesses.

*Marketing and selling expenses.* Marketing and selling expenses were \$32.0 million, or 8.5% of net sales, in the three months ended April 1, 2007 compared to \$24.1 million, or 7.7% of net sales, in the three months ended March 26, 2006. The acquisition of the Armour business contributed \$0.8 million of an increase for the three months ended April 1, 2007. The balance of the change was due to higher advertising expense of \$5.7 million, primarily in our Seafood and Hungry-Man businesses, and increased selling expense, mainly the result of higher sales.

*Administrative expenses.* Administrative expenses were \$13.8 million, or 3.7% of net sales, in the three months ended April 1, 2007 compared to \$13.6 million, or 4.3% of net sales, in the three months ended March 26, 2006.

*Research and development expenses.* Research and development expenses were \$1.1 million, or 0.3% of net sales, in the three months ended April 1, 2007 compared with \$0.9 million, or 0.3% of net sales, in the three months ended March 26, 2006.

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

In Thousands	Three Months Ended	
	April 1, 2007	March 26, 2006
Other expense (income), net consists of:		
Restructuring and impairment charges	\$ 46	\$ 451
Amortization of intangibles/other assets	1,911	1,203
Royalty expense (income), net and other	(44)	56
Total other expense (income), net	<u>\$ 1,913</u>	<u>\$ 1,710</u>

Amortization was \$1.9 million in the three months ended April 1, 2007 as compared to \$1.2 million in the three months ended March 26, 2006, principally driven by the amortization of definite lived intangible assets acquired in the Armour acquisition. For the three months ended March 26, 2006, restructuring and impairment charges totaled \$0.5 million and were principally related to the closure of our Erie, Pennsylvania frozen food facility.

*Earnings before interest and taxes.* Earnings before interest and taxes (EBIT) increased \$16.0 million to \$35.7 million in the three months ended April 1, 2007 from \$19.7 million in EBIT in the three months ended March 26, 2006. This increase resulted from a \$19.1 million increase in dry foods EBIT, a \$2.6 million decrease in frozen foods EBIT, and a \$0.5 million increase in unallocated corporate expenses.

**Dry foods:** Dry foods EBIT increased \$19.1 million in the three months ended April 1, 2007, to \$37.4 million from \$18.3 million, and included \$8.9 million related to the acquisition of the Armour business. The balance of the dry foods EBIT increased \$10.2 million, principally driven by increased sales volume and \$7.3 million lower marketing spending in the first quarter of 2007, mainly in slotting and consumer coupon redemption expense, which are recorded as reductions from net sales, and, to a lesser extent, lower advertising spending.

**Frozen foods:** Frozen foods EBIT decreased by \$2.6 million in the three months ended April 1, 2007, to \$4.0 million from \$6.6 million. The decline of our frozen foods EBIT was principally driven by increases in marketing spending in the first quarter of 2007, 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 principally 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 \$19.7 million in the three months ended April 1, 2007, compared to \$19.4 million in the three months ended March 26, 2006. Included in the interest expense, net, amount was \$(0.4) million and \$0.5 million for the three months ended April 1, 2007 and the three months ended March 26, 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 are recorded as an adjustment to interest expense. Excluding the impact of the interest rate swaps, the decrease in interest expense, net of \$0.6 million was the result of lower interest rates on our bank borrowings (\$0.5 million), lower average bank debt levels resulting from prepayments of our bank borrowings (\$0.5 million), and higher interest income (\$0.3 million), partially offset by higher amortization of debt issue costs resulting from the Armour acquisition as well as the impact of our prepayments of our bank borrowings (\$0.7 million).

*Provision for income taxes.* The effective tax rate was 39.8% in the three months ended April 1, 2007, compared to 2409.4% in the three months ended March 26, 2006. We maintain a full valuation allowance against net deferred tax assets excluding indefinite lived intangible assets, 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, Aurora is a loss corporation. Section 382 of the Code places limitations on our ability to use Aurora's net operating loss carry forward to offset our income. The annual net operating loss limitation is approximately \$13-15 million subject to other rules and restrictions.

## **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 fall baking 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.

## LIQUIDITY AND CAPITAL RESOURCES

### Historical

Our cash flows are very 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 \$29 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 three months ended April 1, 2007 compared to March 26, 2006

Net cash provided by operating activities was \$55.7 million and \$26.6 million for the three months ended April 1, 2007 and March 26, 2006, respectively. Net cash provided by operating activities during the three months ended April 1, 2007 was the result of net earnings excluding non-cash earnings of \$32.7 million and a decrease in working capital of \$23.0 million. The decrease in working capital was primarily the result of a \$20.0 million decrease in inventories that was due to the sell down of the seasonal build from December 2006 as well as a \$14.3 million increase in accounts payable during the quarter. The increase in accounts payable at the end of the first quarter primarily related the normal seasonal slowdown at our production facilities in December 2006 as well as optimizing our freight payment system. The decrease in inventories and increase in accounts payable 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 \$7.0 million of cash, primarily the result of higher accrued trade marketing and other accrued liabilities. Net cash provided by operating activities during the three months ended March 26, 2006 was the result of a decrease in working capital of \$14.1 million, which included a \$13.8 million decrease in inventory that was a result of the sell down of the seasonal build from December 2005 as well as an \$11.4 million increase in accrued liabilities. The increase in accrued liabilities primarily relates to higher accrued interest on our senior subordinated notes as interest is payable on December 1<sup>st</sup> and June 1<sup>st</sup>. The cash provided by the reduction in inventory levels and increase in accrued liabilities were offset by an \$18.6 million increase in accounts receivable, representing higher sales levels.

Net cash used in investing activities was \$5.0 million and \$189.4 million for the three months ended April 1, 2007 and March 26, 2006, respectively. Net cash used in investing activities during the three months ended April 1, 2007 includes \$5.0 million for capital expenditures. Net cash used in investing activities during the three months ended March 26, 2006 includes \$186.5 million for consideration paid for the Armour Business and \$2.9 million for capital expenditures.

Net cash used by financing activities was \$46.3 million for the three months ended April 1, 2007. The usage was driven primarily by the prepayments of our senior term loan credit facility of \$45.1 million and a \$0.9 million decrease in bank overdrafts. Net cash provided by financing activities was \$173.6 million during the three months ended March 26, 2006, which principally included proceeds to fund the acquisition of the Armour Business. These proceeds included \$143.0 million in proceeds from the senior credit facility and \$40.0 million in equity contributions. These proceeds were offset by \$2.5 million in debt acquisition costs, \$6.7 million decline in bank overdrafts and \$0.2 million payment of capital lease obligations and notes payable.

The net of all activities resulted in an increase in cash of \$4.4 million and \$10.9 million during the three months ended April 1, 2007 and March 26, 2006, respectively.

## Debt

In November 2003, we entered into a \$675.0 million Credit Agreement (“senior secured credit facilities”) with JPMorgan Chase Bank (a related party of JPMP as defined in Note 14 to the Consolidated Financial Statements) 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, we entered into an Amendment No. 4 and Agreement to the existing 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 term loan matures November 25, 2010. The senior secured credit facilities also provide 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. The revolving credit facility expires November 25, 2009. There were no borrowings outstanding under the revolver as of December 31, 2006 and April 1, 2007.

As of December 31, 2006, \$2.7 million of our term loan was owed to affiliates of JPMorgan Chase Bank. There was no related party debt as of April 1, 2007.

Our borrowings under the senior secured credit facilities 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 facilities. 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 in our senior secured credit facilities. The applicable margin with respect to the term loan facility and the revolving credit facility, which was adjusted in connection with the June 2, 2006 amendment discussed below, is currently:

- In the case of base rate loans: 1.00% for the term loan and 2.25% for the revolving credit facility.
- In the case of Eurodollar loans: 2.00% for the term loan and 3.25% for the revolving credit facility.

The range of margins for the revolving credit facility is:

- In the case of base rate loans: 1.75% to 2.25%.
- In the case of Eurodollar loans: 2.75% to 3.25%.

A commitment fee of 0.50% per annum applies to the unused portion of the revolving loan facility. For the three months ended April 1, 2007, the weighted average interest rate on the term loan was 7.36%. There were no borrowings under the revolving credit facility during the first quarter. As of April 1, 2007, the Eurodollar interest rate on the term loan facility was 7.74% and the commitment fee on the undrawn revolving credit facility was 0.50%. For the three months ended March 26, 2006, the weighted average interest rate on the term loan was 7.74% and on the revolving credit facility was 9.62%. As of March 26, 2006, the Eurodollar interest rate on the term loan facility was 7.88% and the commitment fee on the undrawn revolving credit facility was 0.50%.

During the three months ended April 1, 2007, we prepaid \$45 million of the term loan facility. Due to the prepayments, the next scheduled installment payable will be in March 2010. As a result of the acquisition of Crunch Holding Corp. discussed earlier, the senior secured credit facilities were paid in full at the time the acquisition closed on April 2, 2007.

The obligations under the senior secured credit facilities are unconditionally and irrevocably guaranteed by each of our direct or indirect domestic subsidiaries (collectively, the "Guarantors"). In addition, the senior secured credit facilities are 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).

We pay 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 cannot exceed \$40 million. As of December 31, 2006 and April 1, 2007, we had utilized \$9.2 million and \$7.8 million, respectively, of the revolving credit facility for letters of credit. Of the \$130 million revolving credit facility available, as of December 31, 2006 and April 1, 2007, we had an unused balance of \$120.8 million and \$122.2 million, respectively, available for future borrowings and letters of credit, of which a maximum of \$30.8 million and \$32.2 million, respectively, may be used for letters of credit.

In November 2003 and February 2004, the Company issued \$200.0 million and \$194.0 million, respectively, 8¼% senior subordinated notes. The February 2004 notes resulted in gross proceeds of \$201.0 million, including premium. The terms of the February 2004 notes are the same as the November 2003 notes and are issued under the same indenture. The 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.

We may redeem all or a portion of the notes prior to December 1, 2008, at a price equal to 100% of the principal amount of the notes plus a "make-whole" premium (the greater of: (1) 1% of the then outstanding principal amount of the note; and (2) the excess of: (a) the present value at such redemption date of (i) the redemption price of the note at December 1, 2008 plus (ii) all required interest payments due on the note through December 1, 2008, computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over (b) the then outstanding principal amount of the note, if greater). On or after December 1, 2008, we may redeem some or all of the notes at the redemption prices listed below, if redeemed during the twelve-month period beginning on December 1 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2008	104.125%
2009	102.750%
2010	101.375%
2011 and thereafter	100.000%

Upon the a change of control that occurred subsequent to the quarter end (as defined in the indenture pursuant to which the notes were issued), and since we had not exercised our right to redeem all of the notes as described above, the note holders had the right to require the Company to repurchase all or a portion of the notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase. The notes were redeemed, in accordance with the aforementioned terms, upon the closing of the acquisition of Crunch Holding Corp.

The notes include a provision that the Company will file with the SEC on or prior to August 21, 2004 a registration statement relating to an offer to exchange the notes for an issue of SEC-registered notes with terms identical to the notes and use its reasonable best effort to cause such registration statement to become effective on or prior to October 20, 2004. Since the exchange offer was not completed before November 19, 2004, the annual interest rate borne by the notes increased by 1.0% per annum until the exchange offer was completed, which occurred on February 1, 2005. As of that date, the Company was no longer paying the additional interest.

Our senior secured credit facilities and the notes contain a number of covenants that, among other things, limit, subject to certain exceptions, our ability to incur additional liens and indebtedness, make capital expenditures, engage in certain transactions with affiliates, repay other indebtedness (including the notes), make certain distributions, make acquisitions and investments, loans or advances, engage in mergers or consolidations, liquidations and dissolutions and joint ventures, sell assets, make dividends, amend certain material agreements governing our indebtedness, enter into guarantees and other contingent obligations and other matters customarily restricted in similar agreements. In addition to scheduled periodic repayments, we are also required to make mandatory repayments of the loans under the senior secured credit facilities with a portion of our excess cash flow, as defined. Due to voluntary prepayments of the term loan made by the Company in fiscal 2006, the Company was not required to make any mandatory repayments for 2006. In addition, our senior secured credit facilities contain, among others, the following financial covenants: a maximum total leverage ratio, a minimum interest coverage ratio and a maximum capital expenditure limitation. See the discussion below regarding the amendments to the senior credit agreement where these covenants have been adjusted.

## Amendments to Senior Secured Credit Facilities

On September 14, 2004, the Company was first in default under its senior secured credit facilities. On November 19, 2004 the Company received required lender approval to permanently waive the defaults mentioned above and amend the financial covenants for future reporting periods. The terms of the permanent amendment and waiver included among other items, a 50 basis point increase to the applicable margin (described above), the addition of a new senior covenant leverage ratio through December 2005, amendment of the interest expense coverage ratio through December 2005, suspension of the maximum total leverage ratio until March 2006, and certain limitations, restrictions and additional reporting requirements 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, which occurred on May 10, 2006.

In connection with Amendment No. 4 dated February 14, 2006, the senior secured credit facilities were also changed in other respects, including: (a) the leverage ratio calculations have been adjusted such that the amount of indebtedness used in such calculations is no longer subject to averaging and is reduced by certain cash and cash equivalents, (b) the leverage ratio threshold for the quarter ending on or about March 31, 2006 has been changed from 5.00 to 1.00 to 5.25 to 1.00, and (c) under certain circumstances, Pinnacle may be able to use equity contributions to cure financial covenant defaults, if any, that may occur in the future under the senior secured credit facilities.

On June 2, 2006, the Company entered into Amendment No. 5, which amended the senior credit facilities in the following manner: (a) to reduce the applicable margin with respect to any term loan to (i) 1.00% per annum, in the case of a base rate loan or (ii) 2.00% per annum, in the case of a Eurodollar loan, (b) to require the payment of certain fees in connection with repricings of the term loans on or prior to June 2, 2007 and (c) to permit additional indebtedness in an aggregate principal amount of up to \$15 million arising from letters of credit issued other than pursuant to the Credit Agreement.

As of April 1, 2007, we were in compliance with the amended and added covenants as discussed above. As a result of the acquisition of Crunch Holding Corp. discussed earlier, the senior secured credit facilities were paid in full at the time the acquisition closed on April 2, 2007.

## **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. In 2005 and 2006, we 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 to the Consolidated Financial Statements included elsewhere in this quarterly report for additional information on the adoption of this pronouncement.

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. Had the Company adopted this provision in fiscal 2006, total liabilities are estimated to have increased by \$2.0 million and total stockholder’s equity would have decreased by \$2.0 million.

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

We 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 the utilization of written guidelines.

We rely 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.

We have entered into interest rate swap agreements with counterparties, including JP Morgan Chase Bank (a related party), to effectively change a portion of the floating rate payments on its senior secured credit facilities into fixed rate payments. As of April 1, 2007, one swap agreement remains outstanding. The agreement terminates on November 25, 2009 and has a notional amount of \$450.0 million. Interest payments determined under the swap agreement are based on the notional amounts. Floating interest rate payments to be received under each swap are based on U.S. Dollar LIBOR, which is substantially the same basis for determining the floating rate payments on the senior secured credit facilities.

These swaps were not designated as hedges pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." As of April 1, 2007, the fair value of the interest rate swaps was a net loss of \$2.3 million, which was recorded as a long term liability. As of December 31, 2006, the fair value of the interest rate swap contracts in place at the time was a loss of \$0.8 million, which was recorded as a long term liability (\$1.8 million) and other current asset (\$1.0 million) in the Consolidated Balance Sheet. Gains and losses on the interest rate swaps, which were recorded as an adjustment to interest expense in the Consolidated Statement of Operations, are detailed below.

<u>Interest rate swaps</u>	<u>Three months ended</u>	
	<u>April 1, 2007</u>	<u>March 26, 2006</u>
(\$ in thousands)		
Non-cash gain (loss)	\$ (1,452)	\$ 489
Gain (loss) realized in cash	1,036	-
Net gain (loss) on interest rate swaps	<u>\$ (416)</u>	<u>\$ 489</u>

We entered into various natural gas swap transactions with JP Morgan Chase Bank (a related party) to lower the Company's exposure to the price of natural gas. As of April 1, 2007, the trades in effect mature from April through June 2007 and have various notional quantities of MMBTU's per month. The Company will pay a fixed price ranging from \$7.16 to \$7.33 per MMBTU, with settlements monthly. These swaps were not designated as hedges pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

As of December 31, 2006 and April 1, 2007, the fair value of the natural gas swaps was a loss of \$0.2 million and a gain of less than \$0.1 million, respectively. At December 31, 2006, the fair value of the gas swap is recorded in accrued liabilities. At April 1, 2007, the fair value of the gas swaps was recorded in other current assets. The related offset is recorded as a gain and was recognized as a reduction to cost of products sold. 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>	<u>Three months ended</u>	
	<u>April 1, 2007</u>	<u>March 26, 2006</u>
(\$ in thousands)		
Non-cash gain (loss)	\$ 205	\$ (420)
Gain (loss) realized in cash	(84)	(369)
Net gain (loss) on natural gas swaps	<u>\$ 121</u>	<u>\$ (789)</u>

We utilize irrevocable standby letters of credit with one-year renewable terms to satisfy workers' compensation self-insurance security deposit requirements. The contract value of the outstanding standby letters of credit as of December 31, 2006 and April 1, 2007 was \$7.8 million and \$7.4 million, respectively, which approximates fair value. As of December 31, 2006 and April 1, 2007, we also utilized letters of credit in connection with the purchase of raw materials in the amount of \$1.4 million and \$0.4 million, respectively, which approximates fair value.

We are 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 by Moody's and Standard & Poor'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 and the 8 ¼% senior subordinated notes that are classified as long term debt on the Consolidated Balance Sheet at April 1, 2007, was approximately its carrying value.

#### **RAW MATERIALS, INGREDIENTS, PACKAGING AND PRODUCTION COSTS**

We purchase agricultural products, meat, poultry, other raw materials and packaging supplies from growers, commodity processors, other food companies and packaging manufacturers using a combination of purchase orders and various short- and long-term supply arrangements.

While all of our materials are available from numerous independent suppliers, raw materials are subject to fluctuations in price attributable to a number of factors, including changes in crop size, federal and state agricultural programs, export demand, weather conditions during the growing and harvesting seasons, insects, plant diseases and fungi. Although we enter into advance commodities purchase agreements from time to time, increases in raw material costs could have a material adverse effect on our business, financial condition or results of operations. We do not engage in speculative transactions nor hold or issue financial instruments for trading purposes.