SMUCKER J M CO
Form 10-Q
March 11, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended January 31, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-5111

THE J. M. SMUCKER COMPANY

(Exact name of registrant as specified in its charter)

Ohio	34-0538550
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Strawberry Lane Orrville, Ohio	44667-0280
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code: (330) 682-3000

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act of 1934.

Yes o No þ

The Company had 119,122,549 common shares outstanding on February 28, 2010.

The Exhibit Index is located at Page No. 27.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)

	Three Months Ended January 31, 2010	Three Months Ended January 31, 2009	Nine Months Ended January 31, 2010	Nine Months Ended January 31, 2009
	(Dollars in thousands, except per share data)			
Net sales	$ 1,205,939	$ 1,182,594	$ 3,536,210	$ 2,689,393
Cost of products sold	747,635	781,553	2,179,627	1,837,154
Gross Profit	458,304	401,041	1,356,583	852,239
Selling, distribution, and administrative expenses	214,411	211,633	648,573	491,856
Amortization	18,570	19,810	55,259	22,763
Impairment charges	9,807	748	9,807	748
Merger and integration costs	4,672	32,809	29,296	42,419
Restructuring costs		257		903
Other operating expense (income) net	1,203	325	4,482	(34)
Operating Income	209,641	135,459	609,166	293,584
Interest income	310	1,822	2,367	5,061
Interest expense	(14,236)	(21,959)	(50,660)	(44,017)
Other income (expense) net	1,446	(966)	2,524	400
Income Before Income Taxes	197,161	114,356	563,397	255,028
Income taxes	61,682	36,415	189,865	83,343
Net Income	$ 135,479	$ 77,941	$ 373,532	$ 171,685
Earnings per common share:				
Net Income	$ 1.14	$ 0.68	$ 3.14	$ 2.29
Net Income Assuming Dilution	$ 1.14	$ 0.68	$ 3.14	$ 2.29
Dividends declared per common share	$ 0.35	$ 0.32	$ 1.05	$ 5.96

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	January 31, 2010	April 30, 2009
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 125,561	$ 456,693
Trade receivables, less allowances	281,678	266,037
Inventories:		
Finished products	409,896	409,592
Raw materials	253,540	194,334
	663,436	603,926
Other current assets	52,151	72,235
Total Current Assets	1,122,826	1,398,891
PROPERTY, PLANT, AND EQUIPMENT		
Land and land improvements	60,012	51,131
Buildings and fixtures	300,630	273,343
Machinery and equipment	987,556	901,614
Construction in progress	34,867	48,593
	1,383,065	1,274,681
Accumulated depreciation	(515,443)	(436,248)
Total Property, Plant, and Equipment	867,622	838,433
OTHER NONCURRENT ASSETS		
Goodwill	2,804,305	2,791,391
Other intangible assets, net	3,042,864	3,098,976
Marketable securities		12,813
Other noncurrent assets	61,815	51,657
Total Other Noncurrent Assets	5,908,984	5,954,837
	$ 7,899,432	$ 8,192,161
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 150,441	$ 198,954
Accrued trade marketing and merchandising	112,490	54,281
Note payable		350,000
Current portion of long-term debt	10,000	276,726
Other current liabilities	195,352	181,275
Total Current Liabilities	468,283	1,061,236

NONCURRENT LIABILITIES		
Long-term debt	900,000	910,000
Deferred income taxes	1,151,769	1,145,808
Other noncurrent liabilities	139,136	135,186
Total Noncurrent Liabilities	2,190,905	2,190,994
SHAREHOLDERS EQUITY		
Common shares	29,781	29,606
Additional capital	4,571,821	4,547,921
Retained income	673,097	424,504
Amount due from ESOP Trust	(4,069)	(4,830)
Accumulated other comprehensive loss	(30,386)	(57,270)
Total Shareholders Equity	5,240,244	4,939,931
	$ 7,899,432	$ 8,192,161

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)

	Nine Months Ended January 31,	
	2010	2009
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 373,532	$ 171,685
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	78,889	54,016
Amortization	55,259	22,763
Impairment charges	9,807	748
Share-based compensation expense	18,796	12,836
Changes in assets and liabilities, net of effect from businesses acquired:		
Trade receivables	(13,099)	(73,294)
Inventories	(51,627)	(18,880)
Accounts payable and accrued items	(11,140)	93,705
Other adjustments	48,269	25,431
Net cash provided by operating activities	508,686	289,010
INVESTING ACTIVITIES		
Businesses acquired, net of cash acquired		(72,149)
Additions to property, plant, and equipment	(112,664)	(84,888)
Sale and maturities of marketable securities	13,519	1,308
Disposals of property, plant, and equipment	2,900	2,567
Other net	(832)	6,877
Net cash used for investing activities	(97,077)	(146,285)
FINANCING ACTIVITIES		
Repayment of bank note payable	(350,000)	
Proceeds from long-term debt		400,000
Repayments of long-term debt	(275,000)	
Quarterly dividends paid	(124,586)	(72,815)
Special dividends paid		(274,208)
Purchase of treasury shares	(5,431)	(3,356)
Proceeds from stock option exercises	6,310	1,850
Other net	1,723	(1,150)
Net cash (used for) provided by financing activities	(746,984)	50,321
Effect of exchange rate changes	4,243	(4,680)
Net (decrease) increase in cash and cash equivalents	(331,132)	188,366
Cash and cash equivalents at beginning of period	456,693	171,541

Cash and cash equivalents at end of period	$	125,561	$	359,907

( ) Denotes use of cash

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

Note A   Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the U.S. for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Certain prior year amounts have been reclassified to conform to current year classifications.

Operating results for the nine-month period ended January 31, 2010, are not necessarily indicative of the results that may be expected for the year ending April 30, 2010. For further information, reference is made to the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the year ended April 30, 2009.

Note B   Recently Issued Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification* (ASC) *and the Hierarchy of Generally Accepted Accounting Principles* (GAAP), which established that the ASC is the single source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (SEC), which are sources of authoritative GAAP for SEC registrants. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the provisions of this guidance as of October 31, 2009, and has updated its references to specific GAAP literature to reflect the codification.

FASB ASC 715, *Compensation Retirement Benefits*, (formerly FASB Staff Position No. FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*), provides guidance on employers disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosure requirements of this standard are effective April 30, 2010, for the Company.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*, which requires additional disclosures about fair value measurements including transfers in and out of different levels of the fair value hierarchy and a higher level of disaggregation for different types of financial instruments. The disclosure requirements of this standard are effective April 30, 2010, for the Company.

The Company is currently assessing the impact, if any, on the consolidated financial statements of recently issued accounting standards that are not yet effective for the Company.

Note C   Folgers Merger

On November 6, 2008, the Company merged The Folgers Coffee Company (Folgers), a subsidiary of The Procter & Gamble Company (P&G), with a wholly-owned subsidiary of the Company. Under the terms of the agreement, P&G distributed the Folgers common shares to electing P&G shareholders in a tax-free transaction, which was immediately followed by the conversion of Folgers common stock into Company common shares. As a result of the merger, Folgers became a wholly-owned subsidiary of the Company. In the merger, P&G shareholders received approximately 63.2 million common shares of the Company valued at approximately $3,366.4 million based on the average closing price of the Company s common shares for the period beginning two trading days before and concluding two trading days after the announcement of the transaction on June 4, 2008. After closing of the transaction on November 6, 2008, the Company had approximately 118 million common shares outstanding. As part of the transaction, the Company s debt obligations increased by $350.0 million as a result of Folgers variable rate bank debt.

The transaction with Folgers, the leading producer of retail packaged coffee products in the United States, is consistent with the Company s strategy to own and market number one brands in North America. For accounting purposes, the Company was the acquiring enterprise. The merger was accounted for as a purchase business combination. Accordingly, the results of the Folgers business are included in the Company s consolidated financial statements from the date of the merger. The aggregate purchase price was approximately $3,735.8 million, including $19.4 million of capitalized transaction related expenses. In addition, the Company incurred costs of $92.3 million to date, that were directly related to the merger and integration of Folgers. Due to the nature of these costs, they were expensed as incurred. Total transaction costs of $111.7 million incurred to date include approximately $12.4 million in noncash expense items.

The Folgers purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of the merger. The Company determined the estimated fair values with the assistance of independent appraisals, discounted cash flow analyses, quoted market prices, and estimates made by management. To the extent the purchase price exceeded the fair value of the net identifiable tangible and intangible assets acquired, such excess was allocated to goodwill.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the transaction date.

Assets acquired:	
Current assets	$ 300,781
Property, plant, and equipment	316,851
Intangible assets	2,515,000
Goodwill	1,643,636
Other noncurrent assets	4,278
Total assets acquired	$4,780,546
Liabilities assumed:	
Current liabilities	$ 85,795
Deferred tax liabilities	955,235
Noncurrent liabilities	3,750
Total liabilities assumed	$1,044,780
Net assets acquired	$3,735,766

Had the merger occurred on May 1, 2008, unaudited, pro forma consolidated results would have been as follows:

	Three Months Ended January 31, 2009	Nine Months Ended January 31, 2009
Net sales	$ 1,210,065	$ 3,616,206
Net income	83,039	265,712
Net income per common share assuming dilution	0.70	2.25

The unaudited, pro forma consolidated results are based on the Company s historical financial statements and those of the Folgers business and do not necessarily indicate the results of operations that would have resulted had the merger been completed at the beginning of the applicable period presented. The unaudited, pro forma consolidated results do not give effect to the synergies of the merger and are not indicative of the results of operations in future periods.

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Note D Share-Based Payments

The Company provides for equity-based incentives to be awarded to key employees and nonemployee directors. These incentives are administered through various plans, and currently consist of restricted shares, restricted stock units, deferred stock units, performance units, and stock options.

Compensation expense related to share-based awards was $5,698 and $6,801 for the three months ended January 31, 2010 and 2009, and $18,796 and $12,836 for the nine months ended January 31, 2010 and 2009, respectively. Of the total compensation expense for share-based awards, $1,067 and $4,344 is included in merger and integration costs in the Condensed Statements of Consolidated Income for the three months and nine months ended January 31, 2010, respectively, and $3,873 for the three months and nine months ended January 31, 2009. The related tax benefit recognized was $1,750 and $2,165 for the three months ended January 31, 2010 and 2009, and $6,334 and $4,178 for the nine months ended January 31, 2010 and 2009, respectively.

As of January 31, 2010, total compensation cost related to nonvested share-based awards not yet recognized was approximately $37,796. The weighted-average period over which this amount is expected to be recognized is approximately 3.0 years.

Note E Impairment Charges

During the three months ended January 31, 2010, the Company became aware of a significant future reduction in its *Europe s Best*® frozen fruit business with a customer in Canada. The Company determined that this event constituted a potential indicator of impairment of the *Europe s Best*® indefinite-lived and the finite-lived intangible assets recognized in its special markets segment under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, *Intangibles Goodwill and Other* (formerly Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*) and FASB ASC 360, *Property, Plant, and Equipment* (formerly Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*), respectively.

The Company determined the fair value of the *Europe s Best*® indefinite-lived trademark based on an analysis of the projected cash flows for the brand, discounted at a rate developed using a risk-adjusted, weighted-average cost of capital methodology. An impairment charge of $7,282 was recognized during the three months ended January 31, 2010, to reduce this trademark to its estimated fair value.

The Company concluded that the carrying amount of the finite-lived customer relationship intangible asset associated with the *Europe s Best*® business was recoverable based on the undiscounted projected net cash flows estimated by the Company to be generated from the asset group. Accordingly, no impairment charge was recognized on the finite-lived customer relationship.

Based on the relative insignificance of the *Europe s Best*® business to its respective reporting unit, the Company determined it was not necessary to test for impairment of goodwill at the reporting unit level. Testing of the reporting unit will be part of the Company s annual assessment of goodwill as of February 1, 2010.

In addition, approximately $2,525 and $748 of impairment was recognized related to other finite and indefinite-lived intangible assets during the three-month and nine-month periods ended January 31, 2010 and 2009, respectively.

Note F Common Shares

At January 31, 2010, 150,000,000 common shares were authorized. There were 119,122,191 and 118,422,123 shares outstanding at January 31, 2010 and April 30, 2009, respectively. Shares outstanding are shown net of 9,481,974 and 10,179,989 treasury shares at January 31, 2010 and April 30, 2009, respectively.

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Note G Reportable Segments

The Company operates in one industry: the manufacturing and marketing of food products. The Company has four reportable segments: U.S. retail coffee market, U.S. retail consumer market, U.S. retail oils and baking market, and special markets. The U.S. retail coffee market segment represents the domestic sales of *Folgers*®, *Dunkin Donuts*®, and *Millstone*® branded coffee to retail customers; the U.S. retail consumer market segment primarily includes domestic sales of *Smucker s*®, *Jif*®, and *Hungry Jack*® branded products; the U.S. retail oils and baking market segment includes domestic sales of *Crisco*®, *Pillsbury*®, *Eagle Brand*®, *Martha White*®, and *White Lily*® branded products; and the special markets segment is comprised of the Canada, foodservice, natural foods (formerly beverage), and international strategic business areas. Special markets segment products are distributed domestically and in foreign countries through retail channels, foodservice distributors and operators (e.g., restaurants, schools and universities, health care operations), and health and natural foods stores and distributors.

The following table sets forth reportable segment information.

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2010	2009	2010	2009
Net sales:				
U.S. retail coffee market	$ 471,463	$ 431,997	$ 1,282,794	$ 431,997
U.S. retail consumer market	273,837	270,465	854,929	846,142
U.S. retail oils and baking market	244,175	278,793	742,487	810,245
Special markets	216,464	201,339	656,000	601,009
Total net sales	$ 1,205,939	$ 1,182,594	$ 3,536,210	$ 2,689,393
Segment profit:				
U.S. retail coffee market	$ 148,564	$ 91,886	$ 424,387	$ 91,886
U.S. retail consumer market	66,460	62,750	204,495	190,609
U.S. retail oils and baking market	39,244	47,509	115,855	106,471
Special markets	38,607	25,314	108,064	72,503
Total segment profit	$ 292,875	$ 227,459	$ 852,801	$ 461,469
Interest income	310	1,822	2,367	5,061
Interest expense	(14,236)	(21,959)	(50,660)	(44,017)
Amortization	(18,570)	(19,810)	(55,259)	(22,763)
Impairment charges	(9,807)	(748)	(9,807)	(748)
Share-based compensation expense	(4,631)	(2,928)	(14,452)	(8,963)
Merger and integration costs	(4,672)	(32,809)	(29,296)	(42,419)
Restructuring costs		(257)		(903)
Corporate administrative expenses	(46,231)	(33,667)	(129,173)	(90,295)
Other unallocated income (expense)	2,123	(2,747)	(3,124)	(1,394)
Income before income taxes	$ 197,161	$ 114,356	$ 563,397	$ 255,028

Segment performance for the three-month and nine-month periods ended January 31, 2009, has been reclassified to include Canadian Folgers results in the special markets segment, rather than in the U.S. retail coffee market segment, consistent with the 2010 presentation.

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Note H Debt and Financing Arrangements

Long-term debt consists of the following:

		January 31, 2010		April 30, 2009
6.77% Senior Notes due June 1, 2009	$		$	75,000
6.60% Senior Notes due November 13, 2009				201,726
7.94% Series C Senior Notes due September 1, 2010		10,000		10,000
4.78% Senior Notes due June 1, 2014		100,000		100,000
6.12% Senior Notes due November 1, 2015		24,000		24,000
6.63% Senior Notes due November 1, 2018		376,000		376,000
5.55% Senior Notes due April 1, 2022		400,000		400,000
Total long-term debt	$	910,000	$	1,186,726
Current portion of long-term debt		10,000		276,726
Total long-term debt less current portion	$	900,000	$	910,000

All of the Company s Senior Notes are unsecured, and interest is paid annually on the 6.60 percent Senior Notes and semiannually on the other notes. Periodic payments are required on the 5.55 percent Senior Notes, the first of which is $50.0 million on April 1, 2013.

On October 29, 2009, the Company entered into an unsecured, three-year, $400.0 million revolving credit facility with a group of five banks. The Company also has available a $180.0 million revolving credit facility with a group of three banks maturing on January 31, 2011. Interest on the revolving credit facilities is based on prevailing U.S. prime, Canadian Base Rate, London Interbank Offered Rate, or Canadian Dealer Offered Rate, as determined by the Company, and is payable either on a quarterly basis or at the end of the borrowing term.

During the nine months ended January 31, 2010, the Company repaid $75.0 million of 6.77 percent Senior Notes, $200.0 million of 6.60 percent Senior Notes, and $350.0 million of Folgers bank debt, as scheduled, utilizing a combination of cash on hand and borrowings of approximately $100.0 million against the $180.0 million credit facility. At January 31, 2010, the Company did not have a balance outstanding under either revolving credit facility.

The Company s debt instruments contain certain financial covenant restrictions including consolidated net worth, leverage ratios, and interest coverage ratios. The Company is in compliance with all covenants.

Note I Earnings per Share

On May 1, 2009, the Company adopted the two-class method of computing earnings per share as required by Financial Accounting Standards Board Accounting Standards Codification 260, *Earnings Per Share* (ASC 260), (formerly Statement of Financial Accounting Standards No. 128, *Earnings Per Share*). ASC 260 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and are to be included in the computation of earnings per share under the two-class method described in ASC 260. The Company s unvested restricted shares contain rights to receive nonforfeitable dividends and are participating securities, requiring the two-class method of computing earnings per share. All presented prior period earnings per share data has been adjusted to retrospectively reflect the application of the two-class method for the three months and nine months ended January 31, 2009, resulting in a reduction of the Company s net income per common share and net income per common share assuming dilution of $0.02 and $0.01 per share, respectively. Additionally, the conversion to the two-class method resulted in a reduction of the Company s net income per common share and net income per common share assuming dilution for the year ended April 30, 2009, of $0.03 and $0.01 per share, respectively.

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The following tables set forth the computation of earnings per common share and earnings per common share assuming dilution.

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2010	2009	2010	2009
Computation of Basic Earnings Per Share:				
Net income	$ 135,479	$ 77,941	$ 373,532	$ 171,685
Net income allocated to participating securities	1,191	571	3,272	1,294
Net income allocated to common stockholders	$ 134,288	$ 77,370	$ 370,260	$ 170,391
Weighted-average common shares outstanding basic	118,022,195	114,081,023	117,855,028	74,249,584
Net income per common share basic	$ 1.14	$ 0.68	$ 3.14	$ 2.29

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2010	2009	2010	2009
Computation of Diluted Earnings Per Share:				
Net income	$ 135,479	$ 77,941	$ 373,532	$ 171,685
Net income allocated to participating securities	1,190	571	3,270	1,298
Net income allocated to common stockholders	$ 134,289	$ 77,370	$ 370,262	$ 170,387
Weighted-average common shares outstanding basic	118,022,195	114,081,023	117,855,028	74,249,584
Dilutive effect of stock options	147,732	65,011	124,524	117,350
Weighted-average common shares outstanding assuming dilution	118,169,927	114,146,034	117,979,552	74,366,934
Net income per common share assuming dilution	$ 1.14	$ 0.68	$ 3.14	$ 2.29

The following table reconciles the weighted-average common shares used in the basic and diluted earnings per share disclosures to the total weighted-average shares outstanding.

	Three Months Ended January 31,	Nine Months Ended January 31,

	2010	2009	2010	2009
Weighted-average common shares outstanding	118,022,195	114,081,023	117,855,028	74,249,584