SMUCKER J M CO
Form 10-Q
December 10, 2010

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 October 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 þ 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). Yes o No þ

The Company had 119,055,837 common shares outstanding on November 30, 2010.

The Exhibit Index is located at Page No. 32.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2010	2009	2010	2009
	(Dollars in thousands, except per share data)			
Net sales	$ 1,278,913	$ 1,278,745	$ 2,326,225	$ 2,330,271
Cost of products sold	772,171	786,495	1,401,595	1,431,992
Cost of products sold restructuring	12,072	0	21,525	0
Gross Profit	494,670	492,250	903,105	898,279
Selling, distribution, and administrative expenses	222,821	232,985	426,082	434,162
Amortization	18,501	18,312	36,998	36,689
Merger and integration costs	2,773	8,148	5,429	24,624
Other restructuring costs	8,345	0	26,449	0
Other operating expense net	2,194	1,599	2,944	2,764
Operating Income	240,036	231,206	405,203	400,040
Interest income	572	686	1,005	2,057
Interest expense	(18,505)	(17,473)	(35,044)	(36,424)
Other (expense) income net	(376)	583	317	563
Income Before Income Taxes	221,727	215,002	371,481	366,236
Income taxes	72,001	75,012	118,874	128,183
Net Income	$ 149,726	$ 139,990	$ 252,607	$ 238,053
Earnings per common share:				
Net Income	$ 1.25	$ 1.18	$ 2.12	$ 2.00
Net Income Assuming Dilution	$ 1.25	$ 1.18	$ 2.11	$ 2.00
Dividends declared per common share	$ 0.40	$ 0.35	$ 0.80	$ 0.70

See notes to unaudited condensed consolidated financial statements.

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

	October 31, 2010	April 30, 2010
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 487,463	$ 283,570
Marketable securities	48,086	0
Trade receivables, less allowances	415,826	238,867
Inventories:		
Finished products	518,809	413,269
Raw materials	303,805	241,670
	822,614	654,939
Prepaid income taxes	32,028	1,663
Other current assets	48,169	44,591
Total Current Assets	1,854,186	1,223,630
PROPERTY, PLANT, AND EQUIPMENT		
Land and land improvements	63,532	62,982
Buildings and fixtures	312,069	308,358
Machinery and equipment	1,019,695	997,374
Construction in progress	57,960	31,426
	1,453,256	1,400,140
Accumulated depreciation	(612,161)	(541,827)
Total Property, Plant, and Equipment	841,095	858,313
OTHER NONCURRENT ASSETS		
Goodwill	2,807,418	2,807,730
Other intangible assets, net	2,989,374	3,026,515
Other noncurrent assets	61,277	58,665
Total Other Noncurrent Assets	5,858,069	5,892,910
	$ 8,553,350	$ 7,974,853
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 194,194	$ 179,509
Accrued trade marketing and merchandising	113,890	52,536
Income taxes payable	0	75,977
Current portion of long-term debt	0	10,000
Other current liabilities	168,835	160,875

Total Current Liabilities	476,919	478,897
NONCURRENT LIABILITIES		
Long-term debt	1,300,000	900,000
Deferred income taxes	1,103,991	1,101,506
Other noncurrent liabilities	168,431	168,130
Total Noncurrent Liabilities	2,572,422	2,169,636
SHAREHOLDERS EQUITY		
Common shares	29,882	29,780
Additional capital	4,592,720	4,575,127
Retained income	902,528	746,063
Amount due from ESOP Trust	(3,334)	(4,069)
Accumulated other comprehensive loss	(17,787)	(20,581)
Total Shareholders Equity	5,504,009	5,326,320
	$ 8,553,350	$ 7,974,853

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended October 31,	
	2010	2009
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 252,607	$ 238,053
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	56,646	51,148
Depreciation restructuring	21,440	0
Amortization	36,998	36,689
Share-based compensation expense	12,268	13,098
Other noncash restructuring charges	5,367	0
Loss on sale of assets net	1,027	1,621
Changes in assets and liabilities, net of effect from businesses acquired:		
Trade receivables	(177,018)	(142,686)
Inventories	(167,945)	(150,828)
Accounts payable and accrued items	95,208	91,112
Defined benefit pension contributions	(12,312)	(723)
Income taxes	(105,166)	25,693
Other net	426	24,635
Net cash provided by operating activities	19,546	187,812
INVESTING ACTIVITIES		
Additions to property, plant, and equipment	(62,073)	(89,433)
Sale and maturities of marketable securities	9,000	13,519
Purchases of marketable securities	(57,037)	0
Proceeds from disposal of property, plant, and equipment	339	0
Other net	11	(818)
Net cash used for investing activities	(109,760)	(76,732)
FINANCING ACTIVITIES		
Repayments of long-term debt	(10,000)	(75,000)
Proceeds from long-term debt	400,000	0
Dividends paid	(95,333)	(82,993)
Purchase of treasury shares	(5,147)	(5,225)
Proceeds from stock option exercises	2,100	1,672
Other net	2,476	286
Net cash provided by (used for) financing activities	294,096	(161,260)
Effect of exchange rate changes	11	3,195
Net increase (decrease) in cash and cash equivalents	203,893	(46,985)
Cash and cash equivalents at beginning of period	283,570	456,693

Cash and cash equivalents at end of period	$ 487,463	$ 409,708

( ) Denotes use of cash
See notes to unaudited condensed consolidated financial statements.

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 U.S generally accepted accounting principles 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 U.S. generally accepted accounting principles 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.

Note B Recently Issued Accounting Standards

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06), 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. These disclosure requirements were effective in the current fiscal year for the Company. In addition, for the reconciliation of Level 3 fair value measurements, ASU 2010-06 requires information about purchases, sales, issuances, and settlements to be presented separately. These disclosure requirements will be effective in fiscal 2012 for the Company.

Note C Restructuring

During fiscal 2010, the Company announced its plan to restructure certain operations as part of its ongoing efforts to enhance the long-term strength and profitability of its leading brands. The initiative is a long-term investment to optimize production capacity and lower the overall cost structure and includes capital investments for a new state-of-the-art food manufacturing facility in Orrville, Ohio, and consolidation of coffee production in New Orleans, Louisiana. The Company expects to incur restructuring costs of approximately $190.0 million related to this plan. Subsequently, on September 27, 2010, the Company expanded its restructuring plan and committed to an initiative to improve the overall cost structure in its Canadian pickle and condiments operations by transitioning production to third-party manufacturers in the U.S. The Company expects to incur additional restructuring costs of approximately $45.0 million related to this initiative, consisting primarily of long-lived asset charges of $28.0 million and employee separation costs of $13.0 million.

Upon completion, the restructuring will result in a reduction of approximately 850 full-time positions and the closing of six of the Company s facilities Memphis, Tennessee; Ste. Marie, Quebec; Sherman, Texas; Kansas City, Missouri; Dunnville, Ontario; and Delhi Township, Ontario.

The Company expects to incur total restructuring costs of approximately $235.0 million, of which $53.7 million has been incurred through October 31, 2010. The balance of the costs is anticipated to be incurred over the next four fiscal years as the facilities are closed.

The following table summarizes the restructuring activity, including the reserves established and the total amount expected to be incurred.

	Long-Lived Asset Charges	Employee Separation	Site Preparation and Equipment Relocation	Production Start-up	Other Costs	Total
Total expected restructuring charge	$ 118,000	$ 60,000	$ 23,500	$ 23,000	$ 10,500	$ 235,000
Balance at May 1, 2009	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Fourth quarter charge to expense	3,870	1,139	407	16	279	5,711
Cash payments	0	(50)	(407)	(16)	(279)	(752)
Noncash utilization	(3,870)	0	0	0	0	(3,870)
Balance at April 30, 2010	$ 0	$ 1,089	$ 0	$ 0	$ 0	$ 1,089
First quarter charge to expense	9,453	16,748	1,268	61	27	27,557
Second quarter charge to expense	11,987	5,363	2,228	684	155	20,417
Cash payments	0	(10,711)	(3,496)	(745)	(182)	(15,134)
Noncash utilization	(21,440)	(5,367)	0	0	0	(26,807)
Balance at October 31, 2010	$ 0	$ 7,122	$ 0	$ 0	$ 0	$ 7,122
Remaining expected restructuring charge	$ 92,690	$ 36,750	$ 19,597	$ 22,239	$ 10,039	$ 181,315

Approximately $12,072 of the total restructuring charges of $20,417 in the three months ended October 31, 2010, and $21,525 of the total restructuring charges of $47,974 in the six months ended October 31, 2010, were reported in cost of products sold in the accompanying Condensed Statements of Consolidated Income, while the remaining charges were reported in other restructuring costs. The restructuring costs classified as cost of products sold include primarily long-lived asset charges. Long-lived asset charges consist entirely of accelerated depreciation related to property, plant, and equipment that will be used at the affected production facilities until the facilities close or are sold.
Expected employee separation costs include severance, retention bonuses, and pension costs. Severance costs and retention bonuses are being recognized over the estimated future service period of the affected employees. The obligation related to employee separation costs is included in other current liabilities in the Condensed Consolidated Balance Sheets. For information on the impact of the restructuring plan on defined benefit pension and other postretirement benefit plans, see Note I Pensions and Other Postretirement Benefits.
Other costs include professional fees, costs related to closing the facilities, and miscellaneous expenditures associated with the Company s restructuring initiative and are expensed as incurred.

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 shares, deferred stock units, performance units, and stock options.

The following table summarizes amounts related to share-based payments.

	Three Months Ended October 31,		Six Months Ended October 31,	
	2010	2009	2010	2009
Compensation expense included in selling, distribution, and adminstrative expenses	$ 5,968	$ 5,268	$ 10,308	$ 9,821
Compensation expense included in merger and integration costs	973	1,418	1,960	3,277
Compensation expense included in other restructuring costs	109	0	174	0
Total compensation expense	$ 7,050	$ 6,686	$ 12,442	$ 13,098
Related income tax benefit	$ 2,293	$ 2,330	$ 3,981	$ 4,584

As of October 31, 2010, total compensation cost related to nonvested share-based awards not yet recognized was approximately $41,962. The weighted-average period over which this amount is expected to be recognized is approximately 3.1 years.

Note E Common Shares

The following table sets forth common share information.

	October 31, 2010	April 30, 2010
Common shares authorized	150,000,000	150,000,000
Common shares outstanding	119,529,429	119,119,152
Treasury shares	9,074,736	9,485,013

Note F 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*®, and *Martha White*® branded products; and the Special Markets segment is comprised of the Canada, foodservice, natural foods, 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.

While the Company s four reportable segments remain the same for 2011, the calculation of segment profit has been modified to include intangible asset amortization and impairment charges related to segment assets, along with certain other items in each of the segments. These items were previously considered corporate expenses and were not allocated to the segments. This change more accurately aligns the segment financial results with the responsibilities of segment management, most notably in the area of intangible assets. Fiscal 2010 segment profit has been presented to be consistent with the current methodology.

The following table sets forth reportable segment information.

	Three Months Ended October 31, 2010	Three Months Ended October 31, 2009	Six Months Ended October 31, 2010	Six Months Ended October 31, 2009
Net sales:				
U.S. Retail Coffee Market	$ 477,287	$ 445,102	$ 870,857	$ 811,331
U.S. Retail Consumer Market	272,564	290,090	551,839	581,092
U.S. Retail Oils and Baking Market	279,523	303,896	453,394	498,312
Special Markets	249,539	239,657	450,135	439,536
Total net sales	$ 1,278,913	$ 1,278,745	$ 2,326,225	$ 2,330,271
Segment profit:				
U.S. Retail Coffee Market	$ 149,099	$ 131,850	$ 260,981	$ 243,017
U.S. Retail Consumer Market	74,287	70,512	145,704	136,635
U.S. Retail Oils and Baking Market	40,854	45,398	63,441	71,078
Special Markets	49,406	40,003	84,278	66,697
Total segment profit	$ 313,646	$ 287,763	$ 554,404	$ 517,427
Interest income	572	686	1,005	2,057
Interest expense	(18,505)	(17,473)	(35,044)	(36,424)
Share-based compensation expense	(5,968)	(5,268)	(10,308)	(9,821)
Merger and integration costs	(2,773)	(8,148)	(5,429)	(24,624)
Cost of products sold restructuring	(12,072)	0	(21,525)	0
Other restructuring costs	(8,345)	0	(26,449)	0
Corporate administrative expenses	(44,452)	(43,141)	(85,490)	(82,942)
Other (expense) income net	(376)	583	317	563
Income before income taxes	$ 221,727	$ 215,002	$ 371,481	$ 366,236

Note G Debt and Financing Arrangements

Long-term debt consists of the following:

	October 31, 2010	April 30, 2010
7.94% Series C Senior Notes due September 1, 2010	$ 0	$ 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
4.50% Senior Notes due June 1, 2025	400,000	0
Total long-term debt	$ 1,300,000	$ 910,000
Current portion of long-term debt	0	10,000

Total long-term debt less current portion	$	1,300,000	$	900,000

On June 15, 2010, the Company issued $400.0 million of 4.50 percent Senior Notes with a final maturity on June 1, 2025. The Senior Notes have a 12-year average maturity. Proceeds from the Senior Notes issuance will be used for general corporate purposes. On September 1, 2010, the Company repaid the $10.0 million of 7.94 percent Series C Senior Notes utilizing cash on hand.

All of the Company s Senior Notes are unsecured and interest is paid semiannually. Scheduled payments are required on the 5.55 percent Senior Notes, the first of which is $50.0 million on April 1, 2013, and on the 4.50 percent Senior Notes, the first of which is $100.0 million on June 1, 2020.

The Company has available an unsecured $400.0 million revolving credit facility with a group of five banks maturing on October 29, 2012. The Company s $180.0 million revolving credit facility with a group of three banks expires on January 31, 2011 and is not expected to be extended. 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. At October 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 an interest coverage ratio. The Company is in compliance with all covenants.

Note H Earnings per Share

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2010	2009	2010	2009
Computation of net income per share:				
Net income	$ 149,726	$ 139,990	$ 252,607	$ 238,053
Net income allocated to participating securities	1,501	1,257	2,478	2,082
Net income allocated to common stockholders	$ 148,225	$ 138,733	$ 250,129	$ 235,971
Weighted-average common shares outstanding	118,313,698	117,887,960	118,235,258	117,771,445
Net income per common share	$ 1.25	$ 1.18	$ 2.12	$ 2.00

	Three Months Ended October 31,		Six Months Ended October 31,	
	2010	2009	2010	2009
Computation of net income per share assuming dilution:				
Net income	$ 149,726	$ 139,990	$ 252,607	$ 238,053
Net income allocated to participating securities	1,500	1,256	2,476	2,080
Net income allocated to common stockholders	$ 148,226	$ 138,734	$ 250,131	$ 235,973
Weighted-average common shares outstanding	118,313,698	117,887,960	118,235,258	117,771,445
Dilutive effect of stock options	130,397	144,249	134,980	112,920
Weighted-average common shares outstanding assuming dilution &nb				