SMUCKER J M CO
Form 10-Q
August 27, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2014

or

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

For the transition period from _______ to _______

Commission file number 1-5111

THE J. M. SMUCKER COMPANY

(Exact name of registrant as specified in its charter)

Ohio	**34-0538550**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x No ¨

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	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The Company had 101,817,341 common shares outstanding on August 22, 2014.

The Exhibit Index is located at Page No. 36

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

THE J. M. SMUCKER COMPANY

CONDENSED STATEMENTS OF CONSOLIDATED INCOME

(Unaudited)

	Three Months Ended July 31,	
(Dollars in millions, except per share data)	2014	2013
Net sales	$ 1,323.8	$ 1,350.9
Cost of products sold	845.1	858.0
Gross Profit	478.7	492.9
Selling, distribution, and administrative expenses	253.4	250.2
Amortization	24.9	24.5
Other special project costs [(A)]	8.6	5.8
Other operating expense (income) net	0.2	(0.9)
Operating Income	191.6	213.3
Interest expense net	(17.4)	(23.8)
Other income net	1.3	
Income Before Income Taxes	175.5	189.5
Income taxes	59.5	62.9
Net Income	$ 116.0	$ 126.6
Earnings per common share:		
Net Income	$ 1.14	$ 1.19
Net Income Assuming Dilution	$ 1.14	$ 1.19
Dividends Declared per Common Share	$ 0.64	$ 0.58

(A) Other special project costs includes restructuring and merger and integration costs. For additional information, see Note 3: Acquisitions and Note 4: Restructuring.

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY

CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended July 31,	
(Dollars in millions)	2014	2013
Net income	$ 116.0	$ 126.6
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(2.8)	(6.0)
Cash flow hedging derivative activity, net of tax	(4.3)	1.9
Pension and other postretirement benefit plans activity, net of tax	1.4	1.9
Available-for-sale securities activity, net of tax	0.4	(0.5)
Total Other Comprehensive Loss	(5.3)	(2.7)
Comprehensive Income	$ 110.7	$ 123.9

See notes to unaudited condensed consolidated financial statements.

THE J. M. SMUCKER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in millions)	July 31, 2014	April 30, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 149.4	$ 153.5
Trade receivables, less allowance for doubtful accounts	392.5	309.4
Inventories:		
Finished products	692.7	571.5
Raw materials	391.8	359.5
	1,084.5	931.0
Other current assets	101.8	145.2
Total Current Assets	1,728.2	1,539.1
Property, Plant, and Equipment		
Land and land improvements	100.5	99.7
Buildings and fixtures	523.2	516.0
Machinery and equipment	1,403.4	1,384.0
Construction in progress	179.9	163.9
	2,207.0	2,163.6
Accumulated depreciation	(932.3)	(898.0)
Total Property, Plant, and Equipment	1,274.7	1,265.6
Other Noncurrent Assets		
Goodwill	3,098.6	3,098.2
Other intangible assets net	2,999.7	3,024.3
Other noncurrent assets	149.0	144.9
Total Other Noncurrent Assets	6,247.3	6,267.4
Total Assets	$ 9,250.2	$ 9,072.1
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 279.4	$ 289.2
Accrued trade marketing and merchandising	59.9	58.5
Current portion of long-term debt		100.0
Revolving credit facility	470.0	248.4
Other current liabilities	210.0	194.9
Total Current Liabilities	1,019.3	891.0
Noncurrent Liabilities		
Long-term debt	1,881.1	1,879.8
Deferred income taxes	1,019.9	1,020.7
Other noncurrent liabilities	245.5	251.0
Total Noncurrent Liabilities	3,146.5	3,151.5
Total Liabilities	4,165.8	4,042.5
Shareholders Equity		
Common shares	25.5	25.4
Additional capital	3,978.2	3,965.8
Retained income	1,137.7	1,091.0
Amount due from ESOP Trust	(0.1)	(1.0)
Accumulated other comprehensive loss	(56.9)	(51.6)
Total Shareholders Equity	5,084.4	5,029.6
Total Liabilities and Shareholders Equity	$ 9,250.2	$ 9,072.1

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

(Unaudited)

(Dollars in millions)	Three Months Ended July 31, 2014	2013
Operating Activities		
Net income	$ 116.0	$ 126.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	38.3	37.6
Amortization	24.9	24.5
Share-based compensation expense	6.9	5.6
Loss on sale of assets net	0.5	0.2
Defined benefit pension contributions	(1.3)	(1.1)
Changes in assets and liabilities, net of effect from businesses acquired:		
Trade receivables	(83.0)	(44.3)
Inventories	(153.3)	(115.1)
Other current assets	27.1	14.0
Accounts payable	(9.8)	(20.6)
Accrued liabilities	(14.3)	22.8
Income and other taxes	45.6	38.7
Other net	(5.7)	(6.8)
Net Cash (Used for) Provided by Operating Activities	(8.1)	82.1
Investing Activities		
Additions to property, plant, and equipment	(49.0)	(36.3)
Proceeds from disposal of property, plant, and equipment	1.2	1.1
Other net	(4.3)	(7.1)
Net Cash Used for Investing Activities	(52.1)	(42.3)
Financing Activities		
Revolving credit facility net	221.6	85.0
Repayments of long-term debt	(100.0)	
Quarterly dividends paid	(58.9)	(55.4)
Purchase of treasury shares	(10.6)	(165.4)
Proceeds from stock option exercises	0.4	0.1
Other net	7.4	0.1
Net Cash Provided by (Used for) Financing Activities	59.9	(135.6)
Effect of exchange rate changes on cash	(3.8)	(3.1)
Net decrease in cash and cash equivalents	(4.1)	(98.9)
Cash and cash equivalents at beginning of period	153.5	256.4
Cash and Cash Equivalents at End of Period	$ 149.4	$ 157.5

( ) 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 millions, unless otherwise noted, except per share data)

Note 1: Basis of Presentation

The unaudited condensed consolidated financial statements of The J. M. Smucker Company (Company, we, us, or our) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) 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 notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included.

Operating results for the three-month period ended July 31, 2014, are not necessarily indicative of the results that may be expected for the year ending April 30, 2015. For further information, reference is made to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended April 30, 2014.

Note 2: Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which was the result of a joint project by the FASB and International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The issuance of a comprehensive and converged standard on revenue recognition is expected to enable financial statement users to better understand and consistently analyze an entity s revenue across industries, transactions, and geographies. The standard will require additional disclosures to help financial statement users better understand the nature, amount, timing, and potential uncertainty of the revenue that is recognized. ASU 2014-09 will be effective for us on May 1, 2017, and will require either retrospective application to each prior reporting period presented or retrospective application with the cumulative effect of initially applying the standard recognized at the date of adoption. We are currently evaluating the impact the application of ASU 2014-09 will have on our financial statements and disclosures.

Note 3: Acquisitions

During 2014, we completed two acquisitions for aggregate net cash consideration of $101.8, net of working capital adjustments. Enray Inc. (Enray), a leading manufacturer and marketer of premium organic, gluten-free ancient grain products, was acquired in August 2013. Silocaf of New Orleans, Inc. (Silocaf), a strategic investment related to our green coffee supply chain, was acquired in September 2013.

The purchase price for each business acquired was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The purchase price allocations include total intangible assets of $37.6 for both Enray and Silocaf. To the extent the purchase price exceeded the estimated fair value of the net identifiable tangible and intangible assets acquired, the excess was allocated to goodwill. Valuations resulted in Enray goodwill of $29.3, which was assigned to the International, Foodservice, and Natural Foods segment, and Silocaf goodwill of $22.8, which was assigned to the U.S. Retail Coffee segment. Silocaf goodwill is preliminary pending the finalization of our tax basis.

Subsequent to July 31, 2014, we signed a definitive agreement to acquire Sahale Snacks, Inc., a leading manufacturer and marketer of premium, branded nut and fruit snacks, for approximately $80.0. The new business will become part of our U. S. Retail Consumer Foods segment upon close of the transaction anticipated to occur during September 2014.

Note 4: Restructuring

During 2010, we announced plans to restructure our coffee and fruit spreads operations as part of our ongoing efforts to enhance the long-term strength and profitability of our leading brands. Since then, we expanded our restructuring plan to include the Canadian pickle and condiments operations and the capacity expansion of our peanut butter business. Pickle and condiments production was transitioned to third-party manufacturers during 2012. The consolidation of coffee production in New Orleans, Louisiana, related to these restructuring initiatives is complete, and the transitioned retail and foodservice fruit spreads volume is being produced at our new facility in Orrville, Ohio. All of the impacted facilities have been closed, resulting in the reduction of 850 full-time positions as anticipated.

We expect to incur total restructuring costs of approximately $265.0 for the entire restructuring plan, of which $251.2 has been incurred through July 31, 2014. The majority of the remaining costs are anticipated to be recognized this fiscal year and relate to the conversion of the Memphis, Tennessee, fruit spreads facility into a peanut butter plant.

The following table summarizes the restructuring activity, including the liabilities recorded 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	$ 102.8	$ 63.8	$ 45.4	$ 42.8	$ 10.2	$ 265.0
Balance at May 1, 2013	$	$ 7.7	$	$	$	$ 7.7
Charge to expense	2.7	2.6	7.2	7.2	1.1	20.8
Cash payments		(8.4)	(7.2)	(7.2)	(1.1)	(23.9)
Noncash utilization	(2.7)	(0.2)				(2.9)
Balance at April 30, 2014	$	$ 1.7	$	$	$	$ 1.7
Charge to expense	0.1	0.2	0.9	1.3	0.3	2.8
Cash payments		(1.1)	(0.9)	(1.3)	(0.3)	(3.6)
Noncash utilization	(0.1)					(0.1)
Balance at July 31, 2014	$	$ 0.8	$	$	$	$ 0.8
Remaining expected restructuring charge	$ 0.1	$ 0.1	$ 4.3	$ 7.7	$ 1.6	$ 13.8

In the three months ended July 31, 2014 and 2013, total restructuring charges of $2.8 and $5.2, respectively, were reported in the Condensed Statements of Consolidated Income. Of the total restructuring charges, $0.1 and $1.4 were reported in cost of products sold in the three months ended July 31, 2014 and 2013, respectively, while the remaining charges were reported in other special project costs.

Employee separation costs include severance, retention bonuses, and pension costs. Severance costs and retention bonuses are recognized over the estimated future service period of the affected employees. The obligation related to employee separation costs is included in current liabilities in the Condensed Consolidated Balance Sheets.

Other costs include professional fees, costs related to closing the facilities, and miscellaneous expenditures associated with the restructuring initiative and are expensed as incurred.

Note 5: Common Shares

The following table sets forth common share information.

	July 31, 2014	April 30, 2014
Common shares authorized	300,000,000	300,000,000
Common shares outstanding	101,816,841	101,697,400
Treasury shares	26,788,324	26,907,765

During 2014, we repurchased 4.9 million common shares for $495.0. At July 31, 2014, approximately 5.0 million common shares were available for repurchase under Board of Directors authorizations.

Note 6: Reportable Segments

We operate in one industry: the manufacturing and marketing of food products. We have three reportable segments: U.S. Retail Coffee, U.S. Retail Consumer Foods, and International, Foodservice, and Natural Foods. The U.S. Retail Coffee segment primarily represents the domestic sales of *Folgers®, Dunkin Donuts®, Millstone®, Café Bustelo®,* and *Café Pilon®* branded coffee; the U.S. Retail Consumer Foods segment primarily includes domestic sales of *Jif ®, Smucker s®*, *Pillsbury®*, *Crisco®*, *Martha White®*, *Hungry Jack®*, and *Eagle Brand®* branded products; and the International, Foodservice, and Natural Foods segment is comprised of products distributed domestically and in foreign countries through retail channels, foodservice distributors and operators (e.g., restaurants, lodging, schools and universities, health care operators), and natural foods stores and distributors.

Segment profit represents net sales, less direct and allocable operating expenses, and is consistent with the way in which we manage our segments. However, we do not represent that the segments, if operated independently, would report operating profit equal to the segment profit set forth below, as segment profit excludes certain operating expenses such as corporate administrative expenses and, effective May 1, 2014, unallocated gains and losses on commodity and foreign currency exchange derivative activities. Commodity and foreign currency exchange derivative gains and losses are reported in unallocated derivative gains and losses outside of segment operating results until the related inventory is sold. At that time, we reclassify the hedge gains and losses from unallocated derivative gains and losses to segment profit, allowing our segments to realize the economic effect of the hedge without experiencing any mark-to-market volatility. We would expect that any gain or loss in the estimated fair value of the derivatives would generally be offset by a change in the estimated fair value of the underlying exposures. Prior year results have been modified to exclude the unrealized gains and losses on commodity and foreign currency exchange derivatives.

	Three Months Ended July 31,	
	2014	2013
Net sales:		
U.S. Retail Coffee	$ 502.7	$ 514.4
U.S. Retail Consumer Foods	522.8	536.4
International, Foodservice, and Natural Foods	298.3	300.1
Total net sales	$ 1,323.8	$ 1,350.9
Segment profit:		
U.S. Retail Coffee	$ 137.6	$ 142.6
U.S. Retail Consumer Foods	113.2	95.5
International, Foodservice, and Natural Foods	35.4	43.1
Total segment profit	$ 286.2	$ 281.2
Interest expense net	(17.4)	(23.8)
Cost of products sold special project costs	(0.4)	(1.5)
Unallocated derivative (losses) gains	(21.4)	4.6
Other special project costs	(8.6)	(5.8)
Corporate administrative expenses	(64.2)	(65.2)
Other income net	1.3	
Income before income taxes	$ 175.5	$ 189.5

As of July 31, 2014, the cumulative amount of net derivative losses from economic hedges that had been recognized in unallocated derivative (losses) gains and not yet allocated to segment profit was $17.3, including net gains of $4.1 incurred prior to 2015. Included in unallocated derivative (losses) gains is $9.1 of net realized losses. For additional information, see Note 11: Derivative Financial Instruments.

Note 7: Debt and Financing Arrangements

Long-term debt consists of the following:

	July 31, 2014	April 30, 2014
4.78% Senior Notes due June 1, 2014	$	$ 100.0
6.12% Senior Notes due November 1, 2015	24.0	24.0
6.63% Senior Notes due November 1, 2018	391.2	392.0
3.50% Senior Notes due October 15, 2021	765.9	763.8
5.55% Senior Notes due April 1, 2022	300.0	300.0
4.50% Senior Notes due June 1, 2025	400.0	400.0
Total long-term debt	$ 1,881.1	$ 1,979.8
Current portion of long-term debt		100.0
Total long-term debt, less current portion	$ 1,881.1	$ 1,879.8

The 3.50 percent Senior Notes were issued in a public offering and the remaining Senior Notes were privately placed. The Senior Notes are unsecured and interest is paid semiannually. Scheduled payments are required on the 5.55 percent Senior Notes, of which $75.0 is due on April 1, 2016, and on the 4.50 percent Senior Notes, the first of which is $100.0 due on June 1, 2020. We repaid the 4.78 percent Senior Notes on June 1, 2014. We may prepay at any time all or part of the Senior Notes at 100 percent of the principal amount thereof, together with accrued and unpaid interest, and any applicable make-whole amount.

In the second quarter of 2014, we entered into an interest rate swap, with a notional amount of $750.0, on the 3.50 percent Senior Notes due October 15, 2021, converting the Senior Notes from a fixed- to a variable-rate basis. The interest rate swap was designated as a fair value hedge of the underlying debt obligation. At July 31, 2014, a net gain from changes in the fair value of the interest rate swap of $17.0 was recognized in interest expense with a corresponding offset due to changes in the fair value of the hedged underlying debt, resulting in no net impact to interest expense. For additional information, see Note 11: Derivative Financial Instruments.

Also, in the second quarter of 2014, we entered into an amended and restated credit agreement with a group of 11 banks. The credit facility, which amended and restated our $1.0 billion credit agreement dated as of July 29, 2011, provides for a revolving credit line of $1.5 billion and extends the maturity to September 6, 2018. Borrowings under the revolving credit facility bear interest based on the prevailing U.S. Prime Rate, Canadian Base Rate, London Interbank Offered Rate (LIBOR), or Canadian Dealer Offered Rate, based on our election. Interest is payable either on a quarterly basis or at the end of the borrowing term. At July 31, 2014, we had a balance outstanding under the revolving credit facility of $470.0 at a weighted-average interest rate of 1.05 percent.

Interest paid totaled $24.7 and $22.4 for the three months ended July 31, 2014 and 2013, respectively. This differs from interest expense due to the timing of payments, amortization of fair value adjustments, effect of interest rate swap, amortization of debt issue costs, and interest capitalized.

Our debt instruments contain certain financial covenant restrictions including consolidated net worth, a leverage ratio, and an interest coverage ratio. We are in compliance with all covenants.

Subsequent to July 31, 2014, we entered into a commercial paper program under which we can issue short-term, unsecured commercial paper not to exceed $1.0 billion at any time. The commercial paper program is backed by our revolving credit facility and reduces what we can borrow under the revolving credit facility by the amount of commercial paper outstanding. Commercial paper will be used as a continuing source of short-term financing for general corporate purposes. As of August 26, 2014, we had $490.0 of short-term borrowings, which was comprised of $250.0 in commercial paper borrowings at a weighted-average interest rate of 0.32 percent and $240.0 in borrowings under our revolving credit facility at a weighted-average interest rate of 1.06 percent.

Note 8: Earnings per Share

The following table sets forth the computation of net income per common share and net income per common share assuming dilution under the two-class method.

	Three Months Ended July 31,	
	2014	2013
Net income	$ 116.0	$ 126.6
Net income allocated to participating securities	0.8	1.1
Net income allocated to common stockholders	$ 115.2	$ 125.5
Weighted-average common shares outstanding	101,028,622	105,077,523
Dilutive effect of stock options	8,471	16,755
Weighted-average common shares outstanding assuming dilution	101,037,093	105,094,278
Net income per common share	$ 1.14	$ 1.19
Net income per common share assuming dilution	$ 1.14	$ 1.19

Note 9: Pensions and Other Postretirement Benefits

The components of our net periodic benefit cost for defined benefit pension and other postretirement benefit plans are shown below.

	Three Months Ended July 31,			
	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2014	2013	2014	2013
Service cost	$ 2.0	$ 2.2	$ 0.6	$ 0.6
Interest cost	5.7	5.4	0.6	0.6
Expected return on plan assets	(6.3)	(6.4)		
Recognized net actuarial loss	2.5	3.3		
Other	0.2	0.3	(0.3)	(0.3)
Net periodic benefit cost	$ 4.1	$ 4.8	$ 0.9	$ 0.9

Note 10: Contingencies

We, like other food manufacturers, are from time to time subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. We are currently a defendant in a variety of such legal proceedings. We cannot predict with certainty the ultimate results of these proceedings or reasonably determine a range of potential loss. Our policy is to accrue costs for contingent liabilities when such liabilities are probable and amounts can be reasonably estimated. Based on the information known to date, we do not believe the final outcome of these proceedings will have a material adverse effect on our financial position, results of operations, or cash flows.

Note 11: Derivative Financial Instruments

We are exposed to market risks, such as changes in commodity prices, foreign currency exchange rates, and interest rates. To manage the volatility related to these exposures, we enter into various derivative transactions. We have policies in place that define acceptable instrument types we may enter into and establish controls to limit our market risk exposure.

Commodity Price Management: We enter into commodity futures and options contracts to manage the price volatility and reduce the variability of future cash flows related to anticipated inventory purchases of key raw materials, notably green coffee, edible oils, and flour. We also enter into commodity futures and options contracts to manage price risk for energy input costs, including natural gas and diesel fuel. The derivative instruments generally have maturities of less than one year.

Effective May 1, 2014, we elected to no longer qualify commodity derivatives for hedge accounting treatment. Prior to 2015, certain of our derivative instruments met the hedge criteria and were accounted for as cash flow hedges. The mark-to-market gains and losses on qualifying hedges were deferred and included as a component of accumulated other comprehensive loss to the extent effective, and reclassified to cost of products sold in the period during which the hedged transaction affected earnings. The deferred net gains included in accumulated other comprehensive loss, net of tax, were $18.3 at April 30, 2014, with $14.0 remaining at July 31, 2014. Although we no longer perform the assessments required to achieve hedge accounting for derivative positions, we believe all of our commodity derivatives are economic hedges of our risk exposure.

The commodities hedged have a high inverse correlation to price changes of the derivative commodity instrument. Thus, we would expect that any gain or loss in the estimated fair value of the derivatives would generally be offset by an increase or decrease in the estimated fair value of the underlying exposure.

Foreign Currency Exchange Rate Hedging: We utilize foreign currency forwards and options contracts to manage the effect of foreign currency exchange fluctuations on future cash payments primarily related to purchases of certain raw materials and finished goods in Canada. The contracts generally have maturities of less than one year.

Effective May 1, 2014, we elected to no longer qualify instruments used to manage foreign currency exchange exposures for hedge accounting treatment. Prior to 2015, instruments used to manage foreign currency exchange exposures did not qualify for hedge accounting treatment and the change in value of these instruments was immediately recognized in cost of products sold.

Interest Rate Hedging: We utilize derivative instruments to manage changes in the fair value and cash flows of our debt. Interest rate swaps mitigate the risk associated with the underlying hedged item. At the inception of the contract, the instrument is evaluated and documented for hedge accounting treatment. If the contract is designated as a cash flow hedge, the mark-to-market gains and losses on the swap are deferred and included as a component of accumulated other comprehensive loss to the extent effective, and reclassified to interest expense in the period during which the hedged transaction affects earnings. If the contract is designated as a fair value hedge, the interest rate swap would be recognized at fair value on the balance sheet and changes in the fair value would be recognized in interest expense. Generally, changes in the fair value of the derivative are equal to changes in the fair value of the underlying debt and have no impact on earnings.

During 2014, we entered into an interest rate swap on the 3.50 percent Senior Notes due October 15, 2021, which was designated as a fair value hedge and used to hedge against the changes in the fair value of the debt. We receive cash flows from the counterparty at a fixed rate and pay the counterparty variable rates based on LIBOR. The difference between the fixed rate and variable rates resulted in a favorable impact to interest expense for the three months ended July 31, 2014. The interest rate swap was recognized at fair value in the Condensed Consolidated Balance Sheets at July 31, 2014 and April 30, 2014, and changes in the fair value were recognized in interest expense. The net gain of $17.0 recognized on the derivative instrument during the first quarter had no net impact to earnings, as the change in the fair value of the derivative was equal to the change in fair value of the underlying debt.

The following table sets forth the gross fair value amounts of derivative instruments recognized in the Condensed Consolidated Balance Sheets.

	July 31, 2014			April 30, 2014		
	Other Current Assets	Other Current Liabilities	Other Noncurrent Assets	Other Current Assets	Other Current Liabilities	Other Noncurrent Liabilities
Derivatives designated as hedging instruments:						
Interest rate contract	$ 12.8	$	$ 4.2	$ 18.0	$	$ 3.1
Commodity contracts				23.4	10.9	
Total derivatives designated as hedging instruments	$ 12.8	$	$ 4.2	$ 41.4	$ 10.9	$ 3.1
Derivatives not designated as hedging instruments:						
Commodity contracts	$ 15.4	$ 18.2	$ 0.5	$ 11.6	$ 5.8	$
Foreign currency exchange contracts	1.2	0.9		1.4	0.7	
Total derivatives not designated as hedging instruments	$ 16.6	$ 19.1	$ 0.5	$ 13.0	$ 6.5	$
Total derivative instruments	$ 29.4	$ 19.1	$ 4.7	$ 54.4	$ 17.4	$ 3.1

We have elected to not offset fair value amounts recognized for our exchange-traded commodity derivative instruments and our cash margin accounts executed with the same counterparty that are generally subject to enforceable netting agreements. We are required to maintain cash margin accounts in connection with funding the settlement of our open positions. At July 31, 2014 and April 30, 2014, we maintained cash margin account balances of $12.4 and $8.1, respectively, included in other current assets in the Condensed Consolidated Balance Sheets and other   net, investing in the Condensed Statements of Consolidated Cash Flows. In the event of default and immediate net settlement of all of our open positions with individual counterparties, all of our derivative liabilities would be fully offset by either our derivative asset positions or margin accounts based on the net asset or liability position with our individual counterparties.

The following table presents information on pre-tax commodity contract gains and losses recognized on derivatives designated as cash flow hedges prior to May 1, 2014, and pre-tax losses related to the termination of a prior interest rate swap.

	Three Months Ended July 31,	
	2014	2013
Losses recognized in other comprehensive loss (effective portion)	$	$ (6.0)
Gains (losses) reclassified from accumulated other comprehensive loss to cost of products sold (effective portion)	7.0	(8.8)
Losses reclassified from accumulated other comprehensive loss to interest expense (effective portion)	(0.1)	(0.1)
Change in accumulated other comprehensive loss	$ (6.9)	$ 2.9

Included as a component of accumulated other comprehensive loss were deferred pre-tax net gains of $22.2 and $29.1 at July 31, 2014 and April 30, 2014, respectively, related to commodity contracts. The related tax expense recognized in accumulated other comprehensive loss was expense of $8.1 and $10.8 at July 31, 2014 and April 30, 2014, respectively. The entire amount included in accumulated other comprehensive loss is expected to be recognized in earnings within one year as the related commodities are sold.

Included as a component of accumulated other comprehensive loss were deferred pre-tax losses of $4.8 at both July 31, 2014 and April 30, 2014, related to the termination of a prior interest rate swap in October 2011 on the 3.50 percent Senior Notes due October 15, 2021. The related tax benefit recognized in accumulated other comprehensive loss was $1.7 at both July 31, 2014 and April 30, 2014. Approximately $0.6 of the pre-tax loss will be recognized over the next 12 months.

The following table presents the net gains and losses recognized in cost of products sold on derivatives not designated as qualified hedging instruments.

	Three Months Ended July 31,	
	2014	2013
Losses on commodity contracts	$ (21.1)	$ (1.9)
(Losses) gains on foreign currency exchange contracts	(0.6)	1.1
Total losses recognized in cost of products sold	$ (21.7)	$ (0.8)

Unallocated derivative (losses) gains for the quarter ended July 31, 2014, included:

	Three Months Ended July 31,	
	2014	2013
Net losses on mark-to-market valuation of unallocated derivative positions	$ (21.7)	$ (0.8)
Net losses on derivative positions reclassified to segment operating profit	0.3	5.4
Net mark-to-market valuation of certain derivative positions recognized in unallocated derivative (losses) gains	$ (21.4)	$ 4.6

The following table presents the gross contract notional value of outstanding derivative contracts.

	July 31, 2014	April 30, 2014
Commodity contracts	$ 571.3	$ 790.3
Foreign currency exchange contracts	250.5	158.1
Interest rate contract	750.0	750.0

Note 12: Other Financial Instruments and Fair Value Measurements

Financial instruments, other than derivatives, that potentially subject us to significant concentrations of credit risk consist principally of cash investments and trade receivables. The carrying value of these financial instruments approximates fair value. Our other financial instruments, with the exception of long-term debt, are recognized at estimated fair value in the Condensed Consolidated Balance Sheets.

The following table provides information on the carrying amounts and fair values of our financial instruments.

	July 31, 2014		April 30, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Other investments	$ 56.0	$ 56.0	$ 55.4	$ 55.4
Derivative financial instruments net	15.0	15.0	33.9	33.9
Long-term debt	(1,881.1)	(2,124.1)	(1,979.8)	(2,239.1)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions.

The following tables summarize the fair values and the levels within the fair value hierarchy in which the fair value measurements fall for our financial instruments.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at July 31, 2014
Other investments: (A)				
Equity mutual funds	$ 12.5	$	$	$ 12.5
Municipal obligations		37.4		37.4
Money market funds	6.1			6.1
Derivatives: (B)				
Commodity contracts net	(1.4)	(0.9)		(2.3)
Foreign currency exchange contracts net		0.3		0.3
Interest rate contract net		17.0		17.0
Long-term debt (C)	(774.8)	(1,349.3)		(2,124.1)
Total financial instruments measured at fair value	$ (757.6)	$ (1,295.5)	$	$ (2,053.1)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at April 30, 2014
Other investments: (A)				
Equity mutual funds	$ 12.0	$	$	$ 12.0
Municipal obligations		34.4		34.4
Other investments	9.0			9.0
Derivatives: (B)				
Commodity contracts net	13.5	4.8		18.3
Foreign currency exchange contracts net		0.7		0.7
Interest rate contract net		14.9		14.9
Long-term debt (C)	(772.0)	(1,467.1)		(2,239.1)
Total financial instruments measured at fair value	$ (737.5)	$ (1,412.3)	$	$ (2,149.8)

(A) Other investments consist of funds maintained for the payment of benefits associated with nonqualified retirement plans. The funds include equity securities listed in active markets, municipal obligations valued by a third party using valuation techniques that utilize inputs which are derived principally from or corroborated by observable market data, and money market funds with maturities of three months or less. Based on the short-term nature of these money market funds, carrying value approximates fair value. As of July 31, 2014, our municipal obligations are scheduled to mature as follows: $6.3 in 2015, $0.5 in 2016, $1.7 in 2017, $1.1 in 2018, and the remaining $27.8 in 2019 and beyond.

(B) Level 1 commodity contract derivatives are valued using quoted market prices for identical instruments in active markets. Level 2 commodity contract and foreign currency exchange derivatives are valued using quoted prices for similar assets or liabilities in active markets. The Level 2 interest rate contract derivative is valued using the income approach, observable Level 2 market expectations at the measurement date, and standard valuation techniques to convert future amounts to a single discounted present value. Level 2 inputs for the interest rate contract are limited to quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability. For additional information, see Note 11: Derivative Financial Instruments.

(C) Long-term debt is comprised of public Senior Notes classified as Level 1 and private Senior Notes classified as Level 2. The public Senior Notes are traded in an active secondary market and valued using quoted prices. The value of the private Senior Notes is based on the net present value of each interest and principal payment calculated, utilizing an interest rate derived from a fair market yield curve. For additional information, see Note 7: Debt and Financing Arrangements.

Note 13: Income Taxes

During the three-month period ended July 31, 2014, the effective income tax rate varied from the U.S. statutory income tax rate primarily due to the domestic manufacturing deduction, partially offset by state income taxes.

Within the next 12 months, it is reasonably possible that we could decrease our unrecognized tax benefits by an additional $0.4, primarily as a result of expiring statute of limitations periods.

Note 14: Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, including the reclassification adjustments for items that are reclassified from accumulated other comprehensive loss to net income, are shown below.

	Foreign Currency Translation Adjustment	Unrealized Gain on Cash Flow Hedging Derivatives (A)	Pension and Other Postretirement Liabilities (B)	Unrealized Gain on Available-for-Sale Securities	Accumulated Other Comprehensive Loss
Balance at May 1, 2014	$ 31.7	$ 15.3	$ (102.0)	$ 3.4	$ (51.6)
Reclassification adjustments		(6.9)	2.2		(4.7)
Current period (charge) credit	(2.8)			0.7	(2.1)
Income tax benefit (expense)		2.6	(0.8)	(0.3)	1.5
Balance at July 31, 2014	$ 28.9	$ 11.0	$ (100.6)	$ 3.8	$ (56.9)

	Foreign Currency Translation Adjustment	Unrealized Loss on Cash Flow Hedging Derivatives (A)	Pension and Other Postretirement Liabilities (B)	Unrealized Gain on Available-for-Sale Securities	Accumulated Other Comprehensive Loss
Balance at May 1, 2013	$ 61.5	$ (11.2)	$ (131.4)	$ 4.5	$ (76.6)
Reclassification adjustments		8.9	3.0		11.9
Current period charge	(6.0)	(6.0)		(0.8)	(12.8)
Income tax (expense) benefit		(1.0)	(1.1)	0.3	(1.8)
Balance at July 31, 2013	$ 55.5	$ (9.3)	$ (129.5)	$ 4.0	$ (79.3)

(A) Of the total losses reclassified from accumulated other comprehensive loss, $7.0 of income and $8.8 of expense was reclassified to cost of products sold related to commodity derivatives for the three months ended July 31, 2014 and 2013, respectively. Of the total losses reclassified from accumulated other comprehensive loss, $0.1 of expense was reclassified to interest expense related to the terminated interest rate swap for the three months ended July 31, 2014 and 2013.

(B) Amortization of net losses was reclassified from accumulated other comprehensive loss to selling, distribution, and administrative expenses.

Note 15: Guarantor and Non-Guarantor Financial Information

Our 3.50 percent Senior Notes due October 15, 2021, are fully and unconditionally guaranteed, on a joint and several basis, by J.M. Smucker LLC and The Folgers Coffee Company (the subsidiary guarantors), which are 100 percent wholly-owned subsidiaries of the Company. A subsidiary guarantor will be released from its obligations under the indenture governing the notes (a) if we exercise our legal or covenant defeasance option or if our obligations under the indenture are discharged in accordance with the terms of the indenture or (b) upon delivery of an officer s certificate to the trustee that the subsidiary guarantor does not guarantee our obligations under any of our other primary senior indebtedness and that any other guarantees of such primary senior indebtedness of the subsidiary guarantor have been released other than through discharges as a result of payment by such guarantor on such guarantees.

Condensed consolidating financial statements for the Company, the subsidiary guarantors, and the other subsidiaries of the Company that are not guaranteeing the indebtedness under the 3.50 percent Senior Notes (the non-guarantor subsidiaries) are provided below. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions, including transactions with our 100 percent wholly-owned subsidiary guarantors and non-guarantor subsidiaries. We have accounted for investments in subsidiaries using the equity method.

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended July 31, 2014				
	The J.M. Smucker Company (Parent)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 707.1	$ 290.4	$ 1,517.8	$ (1,191.5)	$ 1,323.8
Cost of products sold	582.8	263.2	1,181.2	(1,182.1)	845.1
Gross Profit	124.3	27.2	336.6	(9.4)	478.7
Selling, distribution, and administrative expenses and other special project costs	52.8	12.2	197.0		262.0
Amortization	1.0		23.9		24.9
Other operating expense (income) net		0.4	(0.2)		0.2
Operating Income	70.5	14.6	115.9	(9.4)	191.6
Interest (expense) income net	(17.6)	0.3	(0.1)		(17.4)
Other income net	1.3				1.3
Equity in net earnings of subsidiaries	77.5	38.8	14.6	(130.9)	
Income Before Income Taxes	131.7	53.7	130.4	(140.3)	175.5
Income taxes	15.7	0.1	43.7		59.5
Net Income	$ 116.0	$ 53.6	$ 86.7	$ (140.3)	$ 116.0
Other comprehensive (loss) income, net of tax	(5.3)	(4.0)	(7.0)	11.0	(5.3)
Comprehensive Income	$ 110.7	$ 49.6	$ 79.7	$ (129.3)	$ 110.7

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended July 31, 2013				
	The J.M. Smucker Company (Parent)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 736.0	$ 303.4	$ 1,593.4	$ (1,281.9)	$ 1,350.9
Cost of products sold	600.4	277.4	1,257.9	(1,277.7)	858.0
Gross Profit	135.6	26.0	335.5	(4.2)	492.9
Selling, distribution, and administrative expenses and other special project costs	48.6	10.9	196.5		256.0
Amortization	1.1		23.4		24.5
Other operating (income) expense net	(1.5)	(0.2)	0.8		(0.9)
Operating Income	87.4	15.3	114.8	(4.2)	213.3
Interest (expense) income net	(24.0)	0.3	(0.1)		(23.8)
Other income (expense) net		0.1	(0.1)		
Equity in net earnings of subsidiaries	82.6	32.9	15.4	(130.9)	
Income Before Income Taxes	146.0	48.6	130.0	(135.1)	189.5
Income taxes	19.4	0.1	43.4		62.9
Net Income	$ 126.6	$ 48.5	$ 86.6	$ (135.1)	$ 126.6
Other comprehensive (loss) income, net of tax	(2.7)	1.9	(3.9)	2.0	(2.7)
Comprehensive Income	$ 123.9	$ 50.4	$ 82.7	$ (133.1)	$ 123.9

CONDENSED CONSOLIDATING BALANCE SHEETS

	July 31, 2014				
	The J.M. Smucker Company (Parent)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	$ 18.7	$	$ 130.7	$	$ 149.4
Inventories		188.3	905.5	(9.3)	1,084.5
Other current assets	428.9	6.0	71.4	(12.0)	494.3
Total Current Assets	447.6	194.3	1,107.6	(21.3)	1,728.2
Property, Plant, and Equipment Net	238.4	552.5	483.8		1,274.7
Investments in Subsidiaries	8,448.6	4,098.0	252.5	(12,799.1)	
Intercompany Receivable		303.7	1,103.0	(1,406.7)	
Other Noncurrent Assets					
Goodwill	1,082.0		2,016.6		3,098.6
Other intangible assets net	504.4		2,495.3		2,999.7
Other noncurrent assets	75.3	10.7	63.0		149.0
Total Other Noncurrent Assets	1,661.7	10.7	4,574.9		6,247.3
Total Assets	$ 10,796.3	$ 5,159.2	$ 7,521.8	$ (14,227.1)	$ 9,250.2
LIABILITIES AND SHAREHOLDERS EQUITY					
Current Liabilities	$ 747.4	$ 89.3	$ 194.6	$ (12.0)	$ 1,019.3
Noncurrent Liabilities					
Long-term debt	1,881.1				1,881.1
Deferred income taxes	109.2		910.7		1,019.9
Intercompany payable	2,757.4			(2,757.4)	
Other noncurrent liabilities	216.8	12.7	16.0		245.5
Total Noncurrent Liabilities	4,964.5	12.7	926.7	(2,757.4)	3,146.5
Total Liabilities	5,711.9	102.0	1,121.3	(2,769.4)	4,165.8
Total Shareholders Equity	5,084.4	5,057.2	6,400.5	(11,457.7)	5,084.4
Total Liabilities and Shareholders Equity	$ 10,796.3	$ 5,159.2	$ 7,521.8	$ (14,227.1)	$ 9,250.2

CONDENSED CONSOLIDATING BALANCE SHEETS

	April 30, 2014				
	The J.M. Smucker Company (Parent)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	$ 6.8	$	$ 146.7	$	$ 153.5
Inventories		173.3	761.4	(3.7)	931.0
Other current assets	360.2	9.9	94.6	(10.1)	454.6
Total Current Assets	367.0	183.2	1,002.7	(13.8)	1,539.1
Property, Plant, and Equipment Net	233.6	551.1			